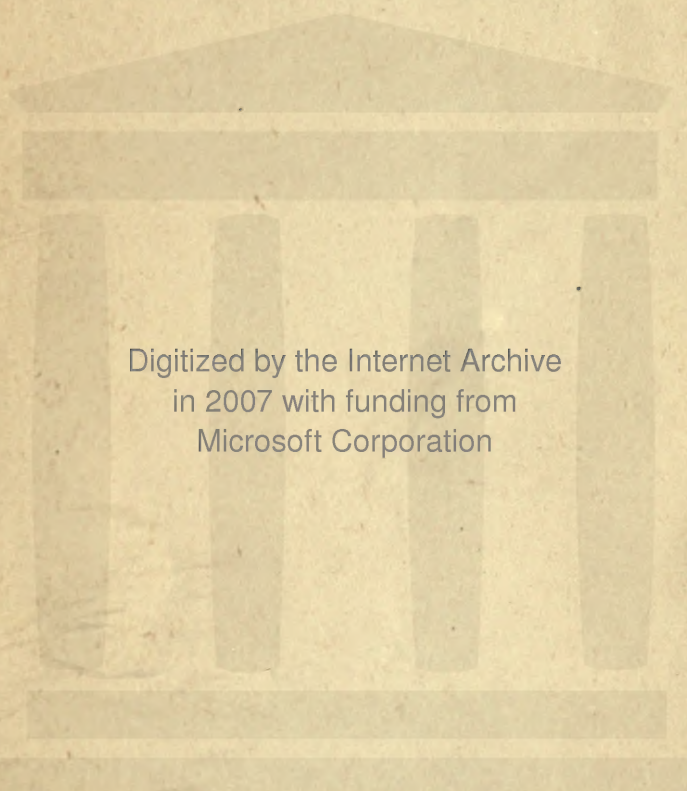
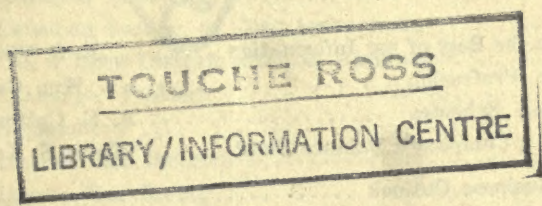


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THE
CANADIAN CHARTERED
ACCOUNTANT



VOLUME XI

1921-22

THE CANADIAN CHARTERED ACCOUNTANT

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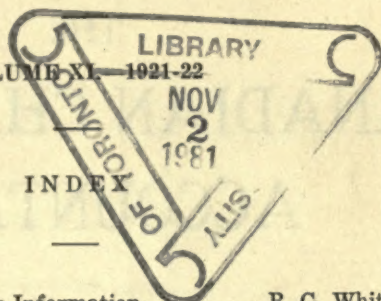
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THE CANADIAN CHARTERED ACCOUNTANT

OFFICIAL ORGAN OF THE
DOMINION ASSOCIATION OF CHARTERED
ACCOUNTANTS

VOL., XI. No. 1

JULY, 1921

ISSUE No. 41

NOTE BY PUBLICATION COMMITTEE

THE Canadian Chartered Accountant enters upon its Eleventh year of publication with this issue. Hitherto a quarterly, it becomes, in response to demands from an appreciative constituency, a bi-monthly publication, at however, an increased price, rendered necessary by the steadily advancing costs of everything entering into its make-up, excepting Editorial services and it is felt that the time has arrived when that painstaking and uncomplaining person, the Editor, should be remembered also.

Concurrently, it has been decided that no further advertising will be accepted by the Magazine, excepting from the Institutes or affiliated sources, the intention being to preserve its character and limit its use to matters of purely professional and technical interest. Our advertisers during the past ten years are extended our best thanks for the patronage and encouragement they have given us, and we trust that the publicity that the Magazine has given them may not have been wholly without benefit to them.

We bespeak the goodwill and assistance of our readers, with the objects of making the Magazine more valuable and interesting, and of enlarging its list of subscribers to the point of being self-sustaining. Nothing beyond that is desired.

THE DOMINION ASSOCIATION OF CHARTERED
ACCOUNTANTS.

19TH ANNUAL MEETING.

Vancouver and Victoria

British Columbia.

23rd, 24th and 25th August, 1921.

PROGRAMME

MONDAY, AUGUST 22ND.

8.00 p. m.—Informal Reception at the Hotel Vancouver.

TUESDAY, AUGUST 23RD.

9.00 a. m.—Meeting of Dominion Council.

10.00 a. m.—Official Reception to which ladies are invited.
Addresses by His Worship Mayor Gale and His Honor
Attorney-General Farris.

10.30 a. m.—President's Address followed by appointment of
Committees.

11.30 a. m.—Business.

1.00 p. m.—Luncheon at Hotel Vancouver on invitation of the
Institute of Chartered Accountants of British Columbia.

2.30 p. m.—Address by George Edwards, F.C.A., Toronto, on "The
Educational Responsibilities of Chartered Societies."
Other general business.

2.30 p. m.—Motor drive for ladies—Stanley Park and Marine Drive.
Tea at Country Club.

7.30 p. m.—Annual Banquet at Vancouver Hotel.

WEDNESDAY. AUGUST 24TH.

- 9.30 a. m.—Meeting Dominion Council.
10.30 a. m.—General Business.
Reports of Constituent Societies, etc.
1.00 p. m.—Luncheon by President to Dominion Council and Ladies.
2.30 p. m.—Motor to Capilano Canyon.
8.00 p. m.—Motor Drives—Stanley Park and Marine Drive.
11.45 P. M.—Steamer for Victoria.
-

THURSDAY. AUGUST 25TH.

Victoria, B. C.

(Note—Victoria Time one hour ahead of Standard Time.)

	Victoria Time
Breakfast at Empress Hotel	8.30 a.m.
Leave Victoria by motor car	10.00 a.m.
Lunch Strathcona Hotel	12.00
Return via Victoria to Brentwood. Tea at Brentwood..	4.30 p.m.
Viewing R. P. Butchart's Gardens	5.00 p.m.
Dinner at Brentwood Hotel	7.30 p.m.
Observatory (Little Saanich Mountain)	9.15 p.m.
Boat leaves for Vancouver	12.45 p.m.

NOTE.—Arrangements will be made for Friday for golf, fishing motoring, etc., as may be desired.

Convention Headquarters—

VANCOUVER HOTEL

Secretary	W. RUSSELL WATSON
Chairman of Committees	
General	G. F. GYLES
Entertainment	A H. EDWARDS
Registration	A. L. C. CHALK

THE DOMINION ASSOCIATION OF CHARTERED
ACCOUNTANTS.

ACT OF INCORPORATION.

2 Edward VII. Chap., 58.

Assented to 15th May, 1902.

AN ACT TO INCORPORATE THE DOMINION ASSOCIATION OF
CHARTERED ACCOUNTANTS.

Whereas the persons hereinafter named have, by their petition, prayed, that it may be enacted as hereinafter set forth, and it is expedient to grant the prayer of the said petition: Therefore, His Majesty, by and with the advice and consent of the Senate and the House of Commons of Canada, enacts as follows:

1. William H. Cross, Henry Barber, Edward R. C. Clarkson, John Mackay, Robert F. Spence and James George, all of the city of Toronto; John Hyde, Archibald W. Stevenson, Alexander F. C. Ross, all of the city of Montreal; John C. Browne, James F. Cunningham and Peter Larmonth, all of the city of Ottawa; Llewelyn A. Nares and Ernest H. Taylor, both of the city of Winnipeg; John F. Helliwell, of the city of Vancouver; W. Curtis Sampson, of the city of Victoria; Frederic S. Thompson and F. S. Sharpe, of the city of St. John, N.B.; Fred H. Oxley and William Simms Lee, both of the city of Halifax, practising accountants, and all other persons who may from time to time be admitted to membership of the corporation, are hereby constituted a body politic and corporate by the name of "The Dominion Association of Chartered Accountants," hereinafter called "the Association."

2. The objects and powers of the Association shall be to promote by all lawful means the practice of accountancy, and for the said purposes:—

- (a) To hold such examinations as may be found expedient.
- (b) To grant certificates of efficiency to its members.
- (c) To establish classes of membership.
- (d) To determine the rights, privileges, terms and conditions of said classes.

3. The Association shall be composed of all members in good standing of existing provincial incorporated institutes and associations, who shall apply for membership within one year after the passing of this Act, and of any other persons of whose qualifications and fitness the council approves.

4. The Association may take, purchase and hold any personal property, lands, buildings, and hereditaments, for the purpose of the Association, and may dispose thereof, but so that the Association shall apply all its profits, if any, or other income in promoting its objects, and shall not at any time pay any dividends to its members. The provisions of this section shall not prevent the remuneration of members of the council, or officers of the Association for services rendered out of any surplus remaining after the ordinary expenses of the Association have been met.

5. The affairs and business of the Association shall be managed by a council consisting of not less than six and not more than twenty-one members, to be constituted in such manner as may be provided by by-law and the following persons shall constitute the first Council, viz. :—William H. Cross, Henry Barber, John Mackay, John Hyde, A. W. Stevenson, Alexander F. C. Ross and John C. Browne.

6. The first general meeting of the Association shall be held during the year one thousand nine hundred and two at such time and place and upon such notice as the Council may decide. Subsequent general meetings shall be held as the by-laws of the Association may provide, but at least once in each calendar year. At any general or special meeting members may be represented and vote by proxy, but no such proxy shall be exercised by a person who is not a member of the Association.

7. The objects and powers of the Association shall be carried out and exercised under by-laws and resolutions passed by the council, but every such by-law, unless in the meantime confirmed at a general meeting of the Association called for the purpose of considering the same, shall have force only until the next annual meeting, and in default of confirmation thereat, shall cease to have force; provided always that any by-law, passed by the council may be repealed, amended, varied or otherwise dealt with by the Association, at any annual general meeting or at a special general meeting called for the purpose.

8. The Association in general or special meeting assembled may make by-laws for carrying out its objects and exercising the powers of this Act conferred upon it.

9. The Association may affiliate with any association or corporation having the same or similar objects.

10. If any person ceases for any cause whatever to be a member of the Association he shall not nor shall his representatives have any interest in or claim against the funds and property of the Association.

THE DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS BY-LAWS.

Declaratory.

It is hereby declared that the following shall be fundamental provisions, having all the force and value of any provision contained in the Act of Incorporation, that is to say :—

“A” The objects and purposes of the Association shall be :

- (a) To secure the incorporation of Provincial Societies in Provinces of the Dominion where now none exist :
- (b) To assist Provincial Societies in securing uniform legislation for the better protection and regulation of local professional interests :
- (c) To secure the adoption by Provincial Societies of uniform standards of examination and membership :
- (d) To arrange for reciprocal privileges between Provincial Societies for the benefit of their members :
- (e) To consider questions of ethics :

- (f) To secure harmony of action in all matters affecting the common interest, and generally to act in an advisory capacity to the Provincial Societies :

"B" Every member of this Association in good standing on the sixteenth day of December, A.D. 1909, shall be entitled to membership in the Provincial Society having jurisdiction in the Province where he resides, without examination, but in other respects subject to the conditions of membership of the said Society, provided he makes application therefor not later than the fifteenth day of June, A.D. 1910.

1. The membership shall be ipso facto the members in good standing, of the following Incorporated Provincial Societies, namely:—

The Association of Accountants in Montreal.

The Institute of Chartered Accountants of Ontario ;

The Institute of Chartered Accountants of Manitoba ;

The Institute of Chartered Accountants of Nova Scotia ;

The Institute of Chartered Accountants of British Columbia ;

The Institute of Chartered Accountants of Saskatchewan ;

The Institute of Chartered Accountants of Alberta ;

The Institute of Chartered Accountants of New Brunswick ;

Persons who at the time of the passing of these By-laws are members of the Association who are not also members of any of the aforesaid Societies.

The membership of Provincial Associations which may hereafter be incorporated, shall be admitted upon the approval of the Council.

2. The rights and privileges of membership shall be deemed to commence upon the date of the receipt by the Secretary, from the Secretaries of the constituent Societies respectively of a list, duly attested, of the members thereof in good standing, and such rights and privileges shall terminate either upon the receipt of notice in like manner, that a person named in such list is no longer qualified, or upon the receipt, in like manner, of an amended list of members wherein the name of such person no longer appears.

3. Any person qualified for membership by more than one of the constituent Societies shall elect which Society shall qualify him, and failing such election within thirty days after notice to him so to do, the Society having jurisdiction in the Province where he resides, shall be deemed to have qualified him, until he otherwise elects.

4. Applicants for membership whose cases are not provided for under By-law No. 1, and of whose qualifications and fitness the Council approves, may qualify through one of the constituent Societies by the direction of the Council

5. Each member shall have one vote upon any question to be voted upon by the members.

6. Each of the said Societies shall pay an annual fee of two dollars for each member qualified by them respectively, and shall make such further pro rata contribution as may be required to meet the necessary expenses of the Association, as approved by the Council and certified by the Auditors.

7. The Council shall be constituted in the following manner, namely :—

- (a) Each of the said Societies shall elect one member.

- (b) Each of the said Societies qualifying over forty members shall elect one additional member.
- (c) Each of the said Societies qualifying over one hundred members shall elect two additional members.
- (d) The members-at-large, so long as their number exceeds ten, shall elect one member.

No Society shall have more than three representatives upon the Council. A majority of the representatives elected by each Society shall be practising Accountants.

In the event of any representative so appointed being unable to act, the Council of his Society shall have full power to delegate his office to an alternate for a specific occasion.

8. The Council may appoint Committees from time to time, as it deems necessary to further the interests and promote the objects of the Association, and may confer such powers upon said Committees as may be necessary.

9. The Councils of the constituent Societies, respectively, shall be standing committees for local purposes, and the President and Secretary of such Society shall be the Chairman and Secretary respectively of such local Committee. Each local Committee shall report in writing to the annual meeting, and in the interim, as the President may require.

10. Two Auditors shall be elected at the annual meeting in each year, from among the members attending the same; and the persons so elected shall forthwith examine the accounts of the Secretary-Treasurer, and report thereon to the meeting, and shall further certify to each constituent Society the amount of the pro rata contribution, if any, required to meet the necessary expenses.

11. There shall be a President and a Vice-President who shall hold office for one year. The President shall be chosen by the Council from the elected representatives of the Societies in the following rotation, namely :—

The Association of Accountants in Montreal ;

The Institute of Chartered Accountants of Manitoba ;

The Institute of Chartered Accountants of Ontario ;

The Institute of Chartered Accountants of British Columbia ;

The Institute of Chartered Accountants of Nova Scotia ;

The Institute of Chartered Accountants of Saskatchewan ;

The Institute of Chartered Accountants of New Brunswick ;

The Institute of Chartered Accountants of Alberta ;

The Vice-President shall be a representative of the Society next in the order of rotation.

12. The President shall preside at all the meetings of the Association and Council. In his absence the Vice-President shall exercise the office of President. In the absence of the President and Vice-President, a chairman, who for the time being, shall be invested with the powers of the President, shall be elected by a majority of those present entitled to vote and voting.

13. There shall be a Secretary-Treasurer, who shall hold office for one year, and who shall, for reasons of convenience, be chosen by the Council from the members of the Society electing the President, but need not be a member of the Council. His duties shall be performed under the direction of the Council, or failing same, then under the direction of the President.

14. The revenue shall be deposited to the credit of the Association in some chartered bank convenient of access by the Secretary-Treasurer for the time being, and shall be withdrawn therefrom only by cheque, which shall be signed by both the President and Secretary-Treasurer. In case of the absence or inability to act of either the President or the Secretary-Treasurer, any member of the Council may sign in his place.

15. The President, Vice-President, Secretary and Treasurer, shall be ex-officio members of all Committees.

16. The next Annual Meeting shall be held at Toronto, Ontario on the 14th and 15th days of July, 1910. The time and place of holding each subsequent Annual Meeting shall be determined by the vote of the members at the Annual Meeting next preceding. The order of business or other procedure shall, as far as practicable, be determined by the Council, and announced by mail to each member at least three months before the meeting is to take place. The Annual Meeting shall include features designed to attract a representative attendance of the members.

17. Meetings of the Association for the transaction of general business, the reading of papers and the discussion of questions of interest to the profession, may be held whenever and wherever the Council shall deem expedient. At least two weeks' notice shall be given of such meetings.

18. Special General Meetings of the Association shall be called by the President or Council, and by the Secretary, upon the receipt of a requisition signed by not less than nine members, of whom at least three shall be members of the Council. The said requisition must state fully the objects of the said meeting. At least two weeks' notice specifying the special business to be brought forward shall be given of such meeting.

19. Meetings of the Association may be adjourned from time to time by resolution of a majority of the members present; but no business shall be transacted at any adjourned meeting, other than the business left unfinished at the meeting from which the adjournment took place.

20. The Council shall, as far as practicable, transact its business immediately before and after the Annual Meeting in each year; but if, in the interim, matters of business shall arise, the consideration of which, in the opinion of the President, cannot be deferred until the date of the Annual Meeting, it shall be competent for the President to transmit particulars of same, together with any resolution contemplating action thereon, to the members of Council by registered post, and if a two-thirds majority of the Council shall, after an interval of fifteen days thereafter to be allowed for consideration and interchange of views, signify in writing to the Secretary their approval of such Resolution, the same shall have the same force and value as if passed at a regular meeting of the Council.

21. Meetings of Committees shall be called by the chairmen thereof respectively upon notice from the Secretary of the Committee of the matters referred to them by the Council. Committees shall report to the meetings of the Council next following that from which the reference was made..

At least one day's notice shall be given of all meetings of committees.

22. The following shall be the order of business at meetings of the Council:—

- (a) Minutes.
- (b) Correspondence.
- (c) Reports of Committees.
- (d) Accounts.
- (e) General Business.

23. All papers intended to be read at meetings of the Association must first be submitted to the Council for their consideration or approval, or direction, or otherwise a two-thirds vote of the members present will be necessary for their introduction at any meeting.

24. Ten shall constitute a quorum for the transaction of business at all meetings of the Association, five at all meetings of the Council and a majority of members at all meetings of the Committees.

25. The proceedings at all meetings shall be governed by the rules laid down in Bourinot's Procedure, except as the By-laws of the Association otherwise provide.

26. At any meeting of the Association two members may demand that the voting upon any question before the meeting shall be by ballot, and the President shall thereupon appoint two Scrutineers for the purpose of taking the vote.

27. Any member or any aggrieved person may refer to the Council, through the Secretary, in writing, charges of default or misconduct on the part of a member, or of performing his duty in an unskilled or non-professional manner. The Secretary shall forthwith furnish copies of same to the Secretary of the Society qualifying such member, and in the event that no appropriate action is taken by such Society upon the said charges, within sixty days, the members may be adjudged guilty, and his name removed from the list of members, and his name shall not be restored until he vindicates himself to the satisfaction of the Council.

28. The membership year shall expire on the 31st day of August on each year, upon which day the Annual Subscription for the coming year shall become due and payable.

29. The common seal of the Association shall be of a circular form and shall contain the words: "The Dominion Association of Chartered Accountants, Incorporated 15th May, 1902." The seal shall be in the custody of the Secretary, and shall not be affixed to any instrument, deed or other document, except by order of the Council, and in accordance with such regulations as the Council may from time to time prescribe.

30. The Head Office of the Association shall be at the office of the President for the time being.

31. Nothing contained in these By-laws shall be construed to interfere with the formation within the Association of a practising class of members who may make rules for their self-government, not inconsistent with these By-laws, and promote such objects as they may consider desirable in the interests of their class. For the purposes of such practising class, those members of the Association who, at the date of the passing of these By-laws, were known as Fellows, shall be deemed to be the practising class herein referred to.

32. Members-at-large shall pay an annual fee to the Association of ten dollars.

33. For the purpose of amendments and changes in these By-laws only, the members-at-large shall have the right of a Society, so long as their number exceeds ten.

34. Any Provincial Society may withdraw from membership by resolution of its Council, and upon sixty day's notice, provided it shall have discharged its financial and other obligations to the Association.

35. In the event of any dispute as to the intent or meaning of any of these By-laws, or of any By-law which may hereafter be made, the interpretation by the Council shall be final and conclusive.

36. When these By-laws have been passed, no amendment or addition thereto shall have any force or effect until adopted by all the constituent Societies.

DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

LIST OF PAST PRESIDENTS AND SECRETARIES

Presidents	Secretaries
1902-4.....John Hyde.....	A. F. C. Ross
1904-5.....W. H. Cross.....	James George
1905-6.....A. W. Stevenson.....	A. F. Mitchell
1906-7.....John Mackay.....	G. T. Clarkson
1907-8.....A. F. C. Ross.....	A. K. Fisk
1908-9.....Henry Barber.....	G. T. Clarkson
1909-10.....Alex. F. Riddell.....	John W. Ross
1910-11.....Alex F. Riddell.....	Geo. C. McDonald
1911-12.....George Edwards.....	George U. Stiff
1912-13.....W. A. Henderson.....	J. D. Reid
1913-14.....E. Kaulbach.....	L. A. Woodin
1914-15.....Alfred Shaw.....	Geo. E. Winter
1915-16.....O. J. Godfrey.....	Thomas Grant
1916-17.....D. A. McCannel.....	Cecil E. Race
1917-18.....John Hyde.....	Robert Wilson Jr.
1918-19.....John Parton.....	W. D. Glendinning
1919-20.....Arthur C. Neff.....	Arnold Morphy

Dominion Association of Chartered Accountants.

OFFICERS 1920 - 1921

	PRESIDENT :	
GEORGE E. WINTER	.. ..	Vancouver, B. C.
	VICE-PRESIDENT :	
H. D. CREIGHTON	.. .. .	Halifax. N. S.
	SECRETARY-TREASURER :	
W. RUSSELL WATSON,	..	210 Bank of Nova Scotia Building. Vancouver, B. C.

COUNCIL

REPRESENTATIVE		ELECTED BY
J. A. GRANT, Montreal, Que.	}	The Association of Accountants in Montreal.
JAS. HUTCHISON, Montreal, Que.		
ARTHUR C. NEFF, Toronto, Ont.	}	The Institute of Chartered Accountants of Ontario.
A. K. BUNNELL, Brantford, Ont.		
W. R. MORRIS, Peterborough, Ont.		
HUBERT T. READE, Winnipeg, Man.	}	The Institute of Chartered Accountants of Manitoba.
WM. D. GLENDINNING, Winnipeg, Man.		
F. C. GILBERT, Winnipeg, Man.		
H. D. CREIGHTON, Halifax, N. S.	}	The Institute of Chartered Accountants of Nova Scotia.
E. KAULBACH, Halifax, N.S.		
GEO. E. WINTER, Vancouver, B. C.	}	The Institute of Chartered Accountants of British Columbia.
ARTHUR H. EDWARDS, Vancouver, B. C.		
F. J. PILKINGTON, Yorkton, Sask.	}	The Institute of Chartered Accountants of Saskatchewan.
B. R. MASECAR, Saskatoon, Sask.		
ED. D. C. THOMSON, Edmonton, Alta.	}	The Institute of Chartered Accountants of Alberta.
F. M. HARVEY, Calgary, Alta.		
W. A. LOUDOUN, Fredricton, N B.	}	The Institute of Chartered Accountants of New Brunswick.

ASSOCIATION OF ACCOUNTANTS IN MONTREAL

Incorporated July 24th, 1880.

Amended January 9th, 1897.

Whereas, James Court, Phillip S. Ross, John Macdonald, Thomas Darling, Louis J. Lajoie, John Fair, Alexander Moffatt, David J. Craig, Alexander F. Riddell, Arthur M. Perkins, Cleophas Beausoleil, Edward Evans, Arthur H. Plimsoll, and others, all accountants, in the City of Montreal have petitioned for the incorporation of themselves and others, as the Association of Accountants in Montreal, and to be invested with certain powers hereinafter mentioned and it is expedient to grant their prayer; therefore, Her Majesty by and with the advice and consent of the Legislature of Quebec, enacts as follows:

1. The aforesaid persons and others already associated with them, and all those who may hereafter become associated with them, are constituted a body politic and corporate, by the name of the "Association of Accountants in Montreal."

2. The objects of the corporation are to promote the efficiency and usefulness of its members and to afford opportunity for giving expression to their opinions upon all questions bearing upon or affecting their calling.

3. The corporation shall make by-laws for its government, the carrying out of its objects and for the qualifications and admission of its members; but such by-laws shall only have force and effect after having been confirmed by the Lieutenant-Governor in Council.

"4. The amount to be paid by a member on his "admission shall not exceed fifty dollars, and "the amount of the annual subscription shall "not exceed twenty dollars." (As amended January 9th, 1897).

5. The affairs, business and concerns of the corporation shall be managed by a president, a first and second vice-president, a committee consisting of four members, a secretary and a treasurer, the same person being eligible for both of the last mentioned offices; and such other officers and number of committee, as may be provided by the By-laws all of whom shall be members of the Association, and shall be elected annually at such time and place as may be provided by the by-laws; all vacancies which may occur in the Council by death or otherwise shall be filled by the council and a majority of the number of the said council, or such other number as may be established by the by-laws, shall constitute a quorum for the transaction of business.

6. The said James Court, Phillip S. Ross, John Macdonald, Thomas Darling, Louis J. Lavoie, John Fair, Alexander Moffatt, David J. Craig, and Alexander F. Riddell shall be the council of the Association until others under the provisions of this Act shall be elected in their place.

7. No member or office-holder shall in any manner be liable to, or charge with, the payment of any debt or demand due by the Association beyond the amount of his unpaid subscription.

8. An annual meeting shall be held for the election of the Council of the Association, and for such other business as may be brought before such meeting, at such time and place and under such regulations and notices as the by-laws of the Association shall determine; but in case of any accident, failure or neglect to hold

such general election, the old officers shall continue to act until the next general election or until such other period as may be provided for in the by-laws.

9. The corporation may admit as members such persons as it sees fit; and the corporation may expel any member for misconduct and violation of the rules and by-laws of the Association on complaint or after enquiry; and for that purpose the council shall have power to examine and hear the parties and their witnesses on oath, which oath the president of the council or other officer of the Association, presiding at such enquiry shall have power to administer. Members of the corporation only shall be entitled to use the designation of "Chartered Accountant."

10. At any annual or regular general meeting of the Association any number of members present shall form a quorum and at special general meetings one-third of the members on the roll of the Association at the time shall form a quorum, and shall be competent to do and perform all acts which, either by this Act or by any By-laws of the Association, are or shall be directed to be done at all such meetings.

"11. The Council of the Association may establish a tariff of fees for services rendered by Chartered Accountants and may, from time to time, amend the same; such tariff and the amendments there-to shall only have force and effect upon and after its or their approval by the Lieutenant-Governor in Council." (New section, January 9th, 1897).

"12. Such tariff shall fix and determine the amounts which may be recovered by chartered accountants for services performed by them as such; and no greater sum may be recovered by them." (New section, January 9th, 1897).

THE ASSOCIATION OF ACCOUNTANTS IN MONTREAL

By-Laws

1. These By-laws made under the Act of Incorporation of the Association of Accountants in Montreal, assented to on the 24th day of July 1880, and amendment thereto, assented to on the 9th day of January 1897 (in these By-laws referred to as the Acts of Incorporation) shall come into operation on the First day of June, 1921, or so soon as they are confirmed by the Lieutenant Governor in Council.

2. Every member of the Association shall have the right to use the designation "Chartered Accountant" and may use after his name the initials "C.A."

Membership

3. Any person, not under twenty-one years of age, who shall be certified by three members of the Association as being of good moral character and habits, and who shall have passed the prescribed examination to the satisfaction of the Examining Committee and the Council as to his professional attainments and experience, shall be entitled to become a member of the Association.

4. Members of recognized sister Associations who are in good standing and practising as Public Accountants, or employed by firms of which at least one member is a member of this Association or of a recognized Sister Association and who have carried on business or who have resided in the Province of Quebec for at least twelve months immediately preceding the date of their application for admis-

sion to membership of the Association may, at the discretion of the Council, be admitted if approved by a majority vote of the members of the Association present at a General or at a Special Meeting called for the purpose, the names of all candidates to be mentioned on the notice calling the meeting.

5. It shall be competent for the Council to recommend for admission as a member any person who has been practising as a Public Accountant for at least ten years in the Province of Quebec who shall be recommended by three members of the Association (not being members of the Council) and regarding the qualification and position of whom the Council shall have satisfied themselves by such examination as they deem necessary providing always that in order to entitle to admission the application and the Council's recommendation—which shall be in the form as prescribed by the rules—must be submitted to a Quarterly General Meeting of the Association and receive the approval of at least three-fourths of the members present thereat, due notice having been given in the circular calling the meeting of the intention of the Council to recommend such application.

6. Every member, when elected, shall be entitled to receive a certificate of membership in respect of the year to which the first subscription paid by him applies, and shall, so long as he remains a member of the Association be entitled to hold the said certificate.

7. Every certificate issued to a member shall be in such form as the Council may from time to time determine and shall be the property of the Association, and, in the event of cessation of membership, shall be returned to the Council, and shall be recoverable on demand, unless the Council shall assent to its remaining in the possession of the member.

8. Any member, provided he is not under liability to the Association, shall be entitled to resign his membership on giving notice in writing of his intention to do so, accompanied by his certificate of membership.

9. Any member whose fees are not paid within six calendar months after the date when fees for the year next following have become due and payable, may be deemed to have thereby terminated his membership, and the Council may direct that his name be removed from the register. Such person may be re-admitted upon such terms as the Council shall approve.

10. Members practising in partnership with any person or persons who are not entitled to use the designation "Chartered Accountant" shall not permit the partnership or firm to be described as "Chartered Accountants" and member so doing after notice shall ipso facto cease to be a member. Any person named in connection with such partnership by advertisement or otherwise shall be deemed a partner for the purpose of this by-law.

11. No member shall engage in any business, profession, or employment, or adopt any form of advertising or procuring business which in the opinion of the Council is objectionable in a member of this Association. The Council shall have power to suspend such member or to cancel his membership in the Association.

12. In order to maintain the discipline and honour of the Association the Council shall have power.

1. By Special Committee or otherwise, to enquire into, hear and pronounce upon, any complaint made against any member of the said Association by another member charging him with any breach of discipline or any action derogatory to the honour of the said Association, and, after hearing the parties and their witnesses on oath,

may by a majority vote of three-fourths of the members of the Council personally present at any meeting specially called to consider such charge, declare the same to be well founded and thereupon proceed by a like vote to suspend such member in the terms and for a time to be fixed by the said resolution and sentence, or expel him from the Association at the discretion of the Council, and such member shall, during the term of such suspension, or after such sentence of suspension, forfeit all claim, benefit or privilege, upon said Association, or the funds thereof.

2. To prevent, reconcile, and settle all differences between the members of the Association, concerning professional matters.

3. To prevent, hear reconcile and determine, all complaints and claims made by third parties against members of the Association in matters connected with their professional duties (and in respect to these, and the last preceding clause determined by a three-fourths vote, the decision of the Council shall be final).

4. To make and establish Rules to regulate all matters referred to in the present section and especially to determine and declare what shall constitute a breach of discipline or be considered an offence derogatory to the honour of the Association, and to determine the time and manner of the trial for such offence, the nature, character and extent of the penalty to be inflicted, and generally all Rules necessary to carry into effect the full intent and meaning of the present section and the objects of the Association, which Rules shall be subject to the provisions of the section next following.

13. Any person ceasing to be a member of the Association from any cause whatever, shall not, nor shall his heirs or legal representatives have any interest in, or claim on or against the funds and property of the Association.

Officers

14. The Association shall be managed by the following Office-Bearers, viz : a President, a First and a Second Vice-President, a Committee consisting of at least four members, a Secretary and a Treasurer, the same person being eligible for both of the last mentioned offices, and these Office-Bearers shall constitute the Council of the Association. The Association may, from time to time, by resolution adopted at any General or Special Meeting, increase the number of the Committee of the Council to not more than ten.

Two members of the Association, not members of the Council, shall be elected Auditors at the Annual Meeting for the ensuing year. The Auditors shall examine all books of account, vouchers, balance sheets and other financial documents of the Association and report thereon to the members at the Annual Meeting, and to the Council at least three days before the date of the Annual Meeting.

15. In the event of any vacancy occurring among the Office-Bearers during the interval between one Annual General Meeting and another, such vacancy shall be filled by the Council, who shall also provided, by interim appointments for the case of the Secretary or Treasurer, being prevented from performing his duties, and any member so appointed ad interim shall be vested with the same rights as the member he replaces.

16. The Secretary shall conduct the correspondence, notify members of the Association and Council of all meetings to be held, record proceedings thereat, keep a register of the members with their addresses, see that the applications for examination and for membership and the references accompanying the same are in the form prescribed, make the necessary investigations in respect thereto,

send all required notices to the members of the Association and of the Council, and perform such other duties as the Council may direct.

17. The Treasurer shall receive the fees, subscriptions and other monies accruing to the Association and deposit them in a Chartered Bank to the credit of the Association. The Treasurer shall dispose of the funds as the Council may direct and shall draw and sign all cheques, keep correct accounts, prepare proper financial statements at the termination of each Association year (May 31st) and perform such other duties as the Council may direct.

18. All cheques shall be countersigned by the President or a Vice-President and all diplomas and Certificates shall be signed by the President (or in his absence by a Vice-President) and by the Secretary, and attested by the seal of the Association.

19. The Council shall have control of the affairs of the Association and shall perform the duties specially assigned to them by these presents.

20. The President, Vice-Presidents and Committee shall act gratuitously but the Secretary and Treasurer, Auditors and Examination Board may be remunerated and their remuneration shall be fixed by the Association at a Regular General Meeting.

Nomination

21. The Office-Bearers shall be elected annually at the Annual General Meeting of the Association. Nomination of candidates for election as Office-Bearers shall be in writing signed by two members of the Association in good standing and must be lodged with the Secretary at least twenty-one days before the date of the Annual Meeting. The Secretary shall notify the members by letter of the date when nominations are due, at least ten days before said due date, and he shall in said notice state the names of all Office-Bearers indicating those not eligible for re-election to the same office.

Election

22. The Secretary shall send a list of these Nominations to each member entitled to vote, addressed to his last known Post Office address, at least fifteen days before the date of the meeting. No officer except the Secretary or Treasurer can be elected to the same office for more than two consecutive years. Such elections shall be by ballot but members absent from the City on the day of the Annual Meeting may record their votes by making a cross opposite the names of the parties they vote for, and lodge the nomination paper so marked in a sealed envelope endorsed "Official Ballot" with the Secretary up to 12 o'clock noon on the day of the Annual Meeting.

23. The Council may from time to time appoint Committees for the purpose of facilitating business under consideration of the Council. The President and First Vice-President shall be ex-officio members of all committees.

The Council may from time to time appoint any three or more members of the Association in good standing, or a Trust Company, to act as trustee of any property belonging to or under the control of the Association.

24. The Council may appoint a Committee on membership, whose duty it shall be to report to the Council when required upon all matters affecting the conduct and standing of members and students.

25. The Council shall appoint annually a Committee of not less than three, to be known as the Board of Examiners, whose duty it shall be to make the necessary arrangements for examination, to ap-

point examiners and to report to the Council the result of the examinations of the Association.

26. The Council may at any time by special resolution remove any Member of the Board of Examiners and may by resolution appoint another member in his place.

27. When five or more members reside in any town they may become a local Committee, and, as such, organize by electing a Chairman and Secretary, for the purpose of considering and making such recommendations to the Council of the Association as they may deem advisable, and the fact of such organization having been completed is to be communicated to the Secretary of the Association.

Meetings

28. The Annual General Meeting of the Association shall be held in June of each year or at such time and place as the Council may determine at which the Office-Bearers for the following year shall be elected, the accounts for the year submitted duly audited and general business and interests of the Association discussed. At least seven days' notice of the meeting shall be given, by ordinary mail. The Association year shall close as of May 31st.

29. Quarterly General Meetings of the Association for the purpose of electing members and the transacting of general business shall be held in the months of September, December, March and June at such time and place as may be determined by the Council, that of June being considered as the Annual Meeting. At least seven days' notice shall be given by ordinary mail.

30. Special General Meetings of the Association for any purpose bearing upon its interests shall be called by the President at the request of the Council or after the receipt of a requisition signed by not less than ten members. At least one week's notice specifying the special business to be brought forward shall be given of such meeting.

31. Meetings of the Association may be adjourned from time to time by resolution of a majority of the members present; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

32. Council Meetings shall be held monthly on the first Tuesday of each month or on such day and at such place as the President may determine for the transaction of regular business of the Association, three days' notice by ordinary mail being given by the Secretary.

33. Special Meetings of the Council shall be called by the Secretary on request of the President or of three members of the Council. Twenty-four hours' notice shall be given by the Secretary.

Chair

34. At all meetings of the Association and of the Council the President, and in his absence, the First Vice-President, and in the absence of both, the Second Vice-President, if present, shall be chairman, and in their absence, the chairman shall be elected by the meeting.

Quorum

35. At the Annual or at any Regular Meeting of the Association any number of members shall form a quorum, and at Special General Meetings of the Association one third of the members in good standing on the Roll of the Association at the time shall form a quorum, and the majority of those present shall rule. In case of a tie, the chairman, in addition to his vote as a member, shall have a casting vote.

At the Regular Monthly Meeting of the Council and at any special meetings of the Council, four members present shall constitute a quorum.

Vote

36. At any meeting of the Association, Council or Committees, two members may require that the voting upon any question before the meeting shall be by ballot, and the Chairman shall thereupon appoint two Scrutineers for the purpose of taking the vote.

In the case of a tie, in voting, in addition to his own vote, the Chairman shall have the right to have a casting vote.

37. Except at Council Meetings and in all cases where personal representation is required by these By-laws, members may be represented at all meetings by proxy, provided such proxy is in favor of a member in good standing of the Association and specifies the meeting at which it is to be used.

38. No member whose subscription to the Association is in arrears for six months shall be entitled to attend or vote at any meeting of the Association.

Students in Accounts

39. Any person not under seventeen years of age residing in the Province of Quebec being employed as a clerk to a practising Chartered Accountant, may apply to the Council to be registered as a Student-in-Accounts. Every such applicant shall furnish evidence in such form as the Council may direct as to his age, occupation and character.

40. A registered student shall not be entitled by reason of such registration alone to exemption from any requirements as to age, character, experience or educational qualification that would otherwise be applicable to his case, as an applicant for examination.

41. Students may form a society for the better advancement of their studies and professional knowledge, and for the purpose of making recommendations affecting their joint interests for the consideration of the Council, but all rules or regulations or acts of self-government of such society shall only have force or effect when the same shall have been approved by the Council, and shall be subject to revision and amendment as the Council may see fit.

Examinations

42. The Council shall hold examinations each year in the City of Montreal, which shall be designated respectively, the Primary, Intermediate and Final Examinations.

43. The Council shall from time to time, as may be experient provide facilities for holding examinations elsewhere, concurrently with the examinations held in the City of Montreal, but no such examinations shall be held outside of the Province of Quebec.

44. Notices shall be sent in each year to students (or registered students) of the time and places of holding the examinations, at least fifteen days prior to the examinations.

Primary Examinations

45. Any person, not under seventeen years of age, may apply to the Council to be examined in the Primary Examination.

46. The Primary Examinations are intended to serve as a test of the Student's general education and shall be conducted in the following subjects or such variations or modifications thereof as the Council may from time to time deem expedient,

English
French

Arithmetic
Algebra

and any one of the following—

GEOMETRY, HISTORY OR GEOGRAPHY.

47. Any student who has passed the Primary Examination of any Sister Society shall be entitled to exemption from the Primary Examinations.

48. The Council shall make further rules and regulations with respect to the Primary Examinations and exemptions therefrom as may from time to time seem expedient or necessary, and such rules and regulations for the time being shall be read with and form a part of this By-law, and be published in the Year Book of the Association.

Intermediate Examinations

49. Any person not under nineteen years of age, residing in the Province of Quebec for at least six months may apply to the Council to be examined in the Intermediate Examination.

- (a) Who being a registered student has completed two years' service in the office of practising Chartered Accountants ; or
- (b) Who has completed three years' service in the office of Public Practising Accountants ; or
- (c) Who has had three years' continuous practice as a Public Accountant in the Province of Quebec.

After 30th November, 1923, candidates must produce with their application a certificate of having passed the Primary Examination of the Association or of a recognized Sister Society.

Where the candidate has a Canadian or British University degree he shall be entitled to a reduction of one year's service.

The Royal Military College at Kingston shall be held to be a University under this Section.

Where a candidate has served overseas with the Allied Forces in the Great War he shall be required to serve only one year with a member of the Association immediately prior to his application for examination.

50. The Intermediate Examination shall include the following subjects :

- 1—Arithmetic (Advanced)
- 2—Book-keeping and Accounts
- 3—Auditing
- 4—Statute Law (Elementary)

51. Any student who has passed the Intermediate Examination of a recognized Sister Society shall be entitled to exemption from the Intermediate Examination.

52. The Council shall make such further rules and regulations with respect to the Intermediate Examinations and exemptions therefrom as may from time to time seem expedient or necessary, and such rules and regulations for the time being shall be read and form a part of this By-law, and be published in the Year Book of the Association.

Final Examinations

53. Any person not under Twenty-one years of age, residing in the Province of Quebec, may apply to the Council to be examined in the Final Examination :

- (a) Who being a registered student has passed the Intermediate Examination of the Association or of any recognized Sister Society, and who has completed four years' service in the offices of practising Chartered Accountants. In the event of change of residence to outside the Province, the student must apply for examination within two years thereafter ; or

- (b) Who has passed the Intermediate Examination, and who has completed Five years' service in the offices of Public Practising Accountants, two years of which shall be the two years immediately preceding ; or
- (c) Who has passed the Intermediate Examination of the Association or of any recognized Sister Society and who has had Five years' continuous practice as a Public Accountant in the Province of Quebec, two years of which practice shall be the two years immediately preceding.

If a candidate has a Canadian or British University degree, he shall be entitled to a reduction of one year's service.

The Royal Military College at Kingston shall be held to be a University under this Section.

Where a candidate has served Overseas with the Allied Forces in the Great War, he shall be entitled to a reduction of one year's service. In no case shall more than one year's exemption be allowed.

54. The Final Examination shall include the following subjects :

1—Book-keeping and accounts

2—Auditing

3—Business Investigations

4—Statute Law

5—Political Economy

55. The Council shall make such further rules and regulations with respect to the Final Examinations and admission as may from time to time seem expedient of necessary, and such rules and regulations for the time being shall be read with and form a part of this By-law, and be published in the Year Book of the Association.

Fees

56. Every candidate whom the Council shall refer for examination shall, before such examination takes place, pay the following or such fees as he Council may fix from time to time.

For the Primary Examination.....\$15.00

For the Intermediate Examination..... 20.00

For the Final Examination..... 25.00

57. Subject to provisions of the Charter or Amendment thereto the admission and Annual fees shall be as follows ; or such fees as the Council may fix from time to time :

- (a) Every person who shall be admitted a member shall thereupon pay an entrance fee of Fifty Dollars (\$50) or such fee as may be fixed by the Charter or by the Council.
- (b) Every member shall pay on the first day of June in each year for the year then ensuing a fee of Twenty Dollars (20), or such less amount as may be recommended by the Council approved by the Association.

Miscellaneous

58. A member who has been suspended or expelled by decision of the Council, for any cause, shall have the right to appeal against such decision, provided within Thirty days after he has been notified of the decision, he files with the Secretary of the Association a notice of appeal and with such notice specifies the reasons for such appeal. Upon receipt of such notice, the Secretary shall forthwith call a Special General Meeting of the Association to deal with the appeal. If at

such Special Meeting three-fourths of the members, personally present thereat, vote for a reversal of the decision or for an amendment of the penalty, such reversal or amendment shall become effective; but failing the securing of such vote the decision of the Council shall stand.

59. In the event of any dispute as to the intent or meaning of any of these By-laws or of any By-laws which may hereafter be made, the interpretation of the Council shall be final and conclusive.

60. All former By-laws of this Association are hereby repealed.

61. The foregoing By-laws may be altered, amended or added to, provided the alterations, amendments or additions, are in the first place approved by the Council, and thereafter, adopted by a General or Special General Meeting of the Association, and confirmed by the Lieutenant-Governor in Council.

APPROVED by His Honor, the Lieutenant-Governor in Council by Order in Council dated 19th July, 1921, No. 1357.

YEAR 1920-21 OFFICERS OF THE ASSOCIATION

PRESIDENT :—James Hutchison, 80 St. Francis Xavier St. Montreal.

1st VICE-PRESIDENT :—J. A. Grant, 142 Notre Dame St. W. Montreal.

2nd VICE-PRESIDENT :—A. B. Brodie, 145 St. James Street, Montreal.

SECRETARY-TREASURER :—Ribert Wilson, Jr., 109 Board of Trade Building, Montreal.

COUNCIL :—David S. Kerr, 232 St James Street, Montreal

F. W. Sharp, 511 Power Building, Montreal.

J. A. Larue, 126 St. Peter Street, Quebec, P. Q.

A. Cross, 142 Notre Dame St. W. Montreal.

LIST OF MEMBERS
ASSOCIATION OF ACCOUNTANTS IN MONTREAL

Name

July 26, 1921.

Apedaile, J. L., Price Brothers, Quebec, P. Q.

Baker, C. W., 90 Commercial Union Bldg., Montreal.

Baker, E. M., 117 Church Street, Windsor, Ont.

Ballantyne, A., 277 Beaver Hall Hill, Montreal.

Bennett, E. J., 1528 Bank of Hamilton Bldg., Toronto.

Birnie, J. G., 90 Commercial Union Bldg., Montreal.

Blackstone, F. Gordon, 142 Notre Dame Street, W. Montreal.

Boulet, J. Wilfred, 126 St. Peter Street, Quebec.

Brimacombe, Lewis, 180 St. James Street, Montreal.

Brodie, A. B., 608 Dominion Express Building, Montreal.

Burden, G. S., 80 St. Frs. Xavier Street, Montreal.

Campbell, S. R., 142 Notre Dame Street, W. Montreal.

Cinq Mars, A., 50 Notre Dame Street, W. Montreal.

Clague, J. A., Sun Life Assurance Company, Montreal.

Clapperton, H. D., 80 St. Frs. Xavier Street, Montreal.

Cole, A. W., 157 St. James Street, Montreal.

Cole, Ernest C., 37 Belmont Street, Montreal.

Cote, Leon, 17 St. James Street, Quebec.

Cross, A., 142 Notre Dame Street, W. Montreal.

Currie, G. S., 179 St. James Street, Montreal.

Cushing, L., 80 St. Frs. Xavier Street, Montreal.

Davenport, Geo., Room 200, 103 St. Francis Xavier St. Montreal.

Dever, J. M., Riddell, Stead, Graham & Hutchinson, Montreal.

Dempster, James, 511 Power Building, Montreal.

Dickson, W. F., Endicott Johnson Corporation, Endicott, N.Y.

Dowie, L. A., 10 Adelaide Street, E. Toronto, Ont.

Durnford, Geo., 189 St. James Street, Montreal.

Edwards, H. P., 10 Adelaide Street, E. Toronto, Ont.

Ferrie, Richard, 802 Royal Bank Building, Toronto, Ont.

Fisk, A. K., 263 St. James Street, Montreal.

Gagnon, P. A., 316 Quebec Bank Bldg., Montreal.

Graham, J. Maxtone, 34 Charlotte Square, Edinburgh, Scotland.

Grant, J. A., 142 Notre Dame Street, W. Montreal.

Gowan, A. A., 17 St. John Street, Montreal.

Hill, M. S. Temple, 235 Board of Trade Building, Montreal.

Hodgson, C. A., 80 St. Francis Xavier Street, Montreal.

Hodgson G. W. 511 Power Building, Montreal.

Hope, A. E. M., 263 St. James Street, Montreal.

Hunter, Geo. R., 80 St. Francis Xavier Street, Montreal.

Hutchison, James, 80 St. Francis Xavier Street, Montreal.

Hyde, John, 18 St. Alexis Street, Montreal.

Jones, W. S., 137 McGill Street, Montreal.

Jones, G. McCarthy, 637 Union Avenue, Montreal.

Keddie, J. M., Anglo-Nfld Development Co. Ltd. Grand Falls, Grand Falls, Nfld.

QUEBEC MEMBERS

Kerr, David S., 232 St. James Street, Montreal.
Kent, Leonard, 180 St. James Street, Montreal.
King, Harold, 591 St. Catherine Street, W. Montreal.
Kingan, G. B., 120 St. James Street, Montreal.

L'Heureux, J. A., 296 St. Paul Street, W. Montreal.
Labelle, J. Z., Ste Therese de Blanville, Que.
LaRue, J. A., 126 St. Peter Street, Quebec, P. Q.

MacIntosh, P., 157 St. James Street, Montreal.
Marwick, J. A., 366 Madison Avenue, New York City.
McDonald, G. C., 179 St. James Street, Montreal.
Midgley, H. E., 103 St. Francis Xavier Street, Montreal.
Mitchell, A. F., 69 St. Francis Xavier Street, Montreal.
Mundell, W. J., 27 Alloway Avenue, Winnipeg, Manitoba.
Murray, J. R. Jr., 241 Clark Avenue, Westmount.

Parenteau, L. C., 103 St. Francis Xavier Street, Montreal.
Paterson, C. A., 157 St. James Street, Montreal.
Patterson, John, 80 St. Francis Xavier Street, Montreal.
Payne, Gordon S., 232 St. James Street, Montreal.
Peckham, S. Brittain, 142 Notre Dame Street, W. Montreal.
Peel, Edwin, 1001 Wilder Building, Montreal.
Piper, H. S. T., 13 Vendome Avenue, Notre Dame de Grace.
Plimssoll, A. H., 210 Milton Street, Montreal.
Probyn, Percival, 145 St. James Street, Montreal.
Rathie, A. H., 470 Granville Street, Vancouver, B.C.
Rathie, W. W., 120 St. James Street, Montreal.
Riddell, A. F., 80 St. Francis Xavier Street, Montreal.
Ritchie, C. F., 211 McGill Street, Montreal.

Robertson, A. S., 128 Bleury Street, Montreal.
Robertson, D. B., 157 St. James Street, Montreal.
Robinson, H. Malcolm, 17 St. John Street, Montreal.
Ross, A. F. C., 142 Notre Dame Street, Montreal.
Ross, J. G., 142 Notre Dame Street, Montreal.
Ross, J. W., 142 Notre Dame Street, Montreal.
Ross, R. C., P. O. Box 1013 Wellington, New Zealand.

Scott, Gordon W., 142 Notre Dame Street, W. Montreal.
Sharp, F. W., 511 Power Building, Montreal.
Skelton, C. Harold, 263 St. James Street, Montreal.
Smibert, Alfred, 80 St. Francis Xavier Street, Montreal.
Schurman, R., 189 St. James Street, Montreal.
Smith H. Meredith, 180 St. James Street, Montreal.
Stead, A. C., 80 St. Francis Xavier Street, Montreal.
Stevenson, A. W., 263 St. James Street, Montreal.
Stevenson, R. C., 263 St. James Street, Montreal.

Trudel, Eugene, 126 St. Peter Street, Quebec.
Tansley, Gordon, 205 St. James Street, Montreal.
Thompson, W. Garth, 277 Beaver Hall Hill, Montreal.
Turnbull, F. Martin, 511 Power Building, Montreal.
Turville, Frank P., 17 St. John Street, Montreal.

Webb, Herbert J., 83 Craig Street, Montreal.
Wilson, Robert, Jr., 109 Board of Trade Building, Montreal.
Wilson, W. S., 83 Bank of Ottawa Bldg., Montreal.
Wurtele, E. F., 369 University Street, Montreal.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO
INCORPORATED BY 46 VICTORIA, CHAPTER 52.

(Assented to February 1st, 1883).

and

1 GEORGE V., CHAPTER 48, 1911.

THE CHARTERED ACCOUNTANTS ACT

His Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Ontario, enacts as follows :

1. This Act may be cited as the Chartered Accountants Act.
2. The Institute of Chartered Accountants of Ontario, is continued.
- 3.—(1) The Institute may purchase, take and acquire for the purposes of the Institute, but for no other purpose, and after acquiring the same may sell, mortgage, lease or dispose of any real estate.
(2) The Institute may receive, manage and invest voluntary contributions and donations from members or others as a benevolent fund for the benefit of needy members or their families and the families of deceased members
4. The objects of the Institute shall be to promote and increase the knowledge, skill and proficiency of its members in all things relating to the business or profession of an accountant, and to that end to establish classes, lectures and examinations, and to prescribe such tests of competency, fitness and moral character as may be thought expedient to qualify for admission to membership.
5. There shall be a Council of the Institute hereinafter called the Council, which shall consist of fifteen members, of whom not less than two-thirds shall be public accountants, residing and practising within Ontario.
6. (1) An annual meeting shall be held for the election of the Council, and for such other business as may be brought before the meeting, at such time and place and under such regulations and after such notices as shall be determined by the by-laws of the Institute, and in default of such election being held at the proper time the existing Council shall continue to act until their successors are elected.
(2) Nominations of candidates for election to the Council shall be in writing, signed by two members of the Institute, and shall be lodged with the Secretary at least fourteen days before the date of the annual meeting.
(3) A voting paper containing the names, alphabetically arranged, of the persons nominated shall be sent by mail to each member in good standing at least ten days before the date of the annual meeting.
(4) The voting paper shall be signed by the voter and shall be lodged with the Secretary on or before the day of the annual meeting, and the Council shall be elected by means of such voting papers, whether the members voting be present at or absent from the annual meeting.
(5) All vacancies which occur in the Council by death or otherwise, in the interval between two annual meetings, shall be filled by the Council.

ONTARIO INCORPORATION ACT

7. The Council shall elect from among its number a President, two Vice-Presidents, a Secretary and a Treasurer (the same person being eligible for both the last mentioned offices), and shall appoint a Registrar and such other officers as may be provided for by the by-laws.

8. The Council may fix an entrance and annual fee or subscription to be paid by all members, and may vary the amount thereof from time to time.

9. (1) The Council may make by-laws for carrying out the objects of the Institute, but no such by-law or any amendment thereto shall have force or take effect until it has been approved at an annual meeting of the Institute, or at a special general meeting called to consider the same.

(2) Any such by-law may be annulled by the Lieutenant-Governor in Council.

10. The Council may,

- (a) Prescribe a curriculum of studies to be pursued by the students ;
- (b) Determine as to the fitness and moral character of persons applying to be examined ;
- (c) Prescribe the subjects upon which candidates for certificates of competency shall be examined ;
- (d) Fix standards of skill and competency ;
- (e) Establish a scale of fees to be paid by persons applying for examination ;
- (f) Appoint examiners, define their duties and fix their remuneration, and
- (g) Make such rules and regulations (not contrary to the provisions of this Act or the by-laws of the Institute) in respect to examinations as may be expedient.

11. The Council shall hold examinations at least once in each year.

12. The Council shall by by-law prescribe the conditions upon which persons who have passed the examinations of other corporate bodies having the same or similar objects, may be admitted as members of the Institute, and such conditions shall be reasonable and subject to amendment by the Lieutenant-Governor in Council, and if the Council omits to pass such a by-law, the Lieutenant-Governor in Council may prescribe such conditions.

13. The Institute may establish lectures and classes of students in accounts, and subject to the approval of the Lieutenant-Governor in Council, may make arrangements with any University or College in Ontario for the attendance of students in accounts at such lectures or classes in such University or College as may come within the course of subjects prescribed by the rules, by-laws, and regulations of the Institute, and may agree with any such University or College for the use of any library or museum or property belonging to or under the control of such University or College, and may affiliate with any such University or College, and may enter into all arrangements necessary for that end, upon such terms as may be agreed upon.

14. The membership of the Institute shall consist of two classes, namely, Fellows and Associates.

15. Every member of the Institute shall have the right to use the designation "Chartered Accountant," and may use after his name, if he is a Fellow, the initials "F.C.A.," signifying "Fellow of the

Chartered Accountants," and if he is an Associate the initials "A.C.A." signifying "Associate of the Chartered Accountants."

16. Persons who have rendered conspicuous services to the Institute, either in the advancement of its educational objects or its general welfare or by material contributions to the library or other funds of the Institute, may by the unanimous vote of the members present at any meeting of the Institute, be elected to honorary membership therein, but honorary membership shall not confer the right to use the designation "Chartered Accountant," or to be elected to the Council or to vote.

17. (1) No person shall be entitled to take or use the designation "Chartered Accountant" or the initials "F.C.A.," "A.C.A.," or "C.A.," either alone or in combination with any other words, or any name, title, or description implying that he is a chartered accountant or any name, title, initials or description implying that he is a certified accountant or an incorporated accountant, unless he is a member of the Institute in good standing and registered as such.

(2) Any person who contravenes any of the provisions of this section shall incur a penalty not exceeding \$25 for each offence recoverable under The Ontario Summary Convictions Act.

(3) This section shall not apply to those persons who, being members in good standing of the Dominion Association of Chartered Accountants on the 16th day of December, 1909, were on that day entitled to membership in the Institute or to apply therefor.

18. (1) The Council shall cause to be kept by the Secretary or Registrar, a register in which shall be entered in alphabetical order the names of all members in good standing; and those members only whose names are entered in the register shall be deemed entitled to the privilege of membership in the Institute; and such register shall at all times be subject to inspection by any person free of charge.

(2) Such register, or a copy of the same duly certified by the Secretary or Registrar, shall be prima facie evidence in all courts and before all persons that the persons whose names are entered therein are members of the Institute in good standing, and the absence of the name of any person from such register shall be prima facie evidence that such person is not a member of the Institute.

19. The Institute may by by-law provide for the suspension or expulsion, on complaint and after due enquiry of any member for misconduct or for violation of the rules or by-laws of the Institute.

20. Nothing in this Act shall effect or interfere with the right of any person not a member of the Institute to practise as an accountant in Ontario, nor with the right of any person, not residing or having an office therein, to use any designation as accountant.

21. Chapter 62 of the Acts passed in the 46th year of the reign of Her late Majesty Queen Victoria, and chapter 79 of the acts passed in the 10th year of the reign of His late Majesty King Edward the Seventh are repealed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF ONTARIO

BY-LAWS

Membership

1. Any person, not under twenty-one years of age, who shall be certified by two members of the Institute as being of good moral character and habits, and who shall have satisfied the Examination Committee and the Council as to his professional attainments and experience, shall be entitled to become an Associate member of the Institute.

2. Any Associate member in good standing not under thirty years of age who has been in practice continuously for five years subsequent to his admission as an Associate, may by a vote of the Council, be admitted a Fellow.

3. Any Associate member in good standing who has not been in practice continuously for five years subsequent to his admission as an Associate, may by a vote of the Council, confirmed by a two-thirds vote of the Fellows, be admitted a Fellow.

Registered Societies

4. Any incorporated Institute or Society which shall satisfy the Council that its standards of examination and conditions of membership conform to the standards of examination and conditions of membership of this Institute, shall be entitled to be registered accordingly and shall be designated a "Registered Society."

The following Societies, being within the requirements of this By-Law are declared to be "Registered Societies."

The Institute of Chartered Accountants in England and Wales.

The Society of Incorporated Accountants and Auditors.

The Society of Accountants in Edinburgh.

The Institute of Accountants and Actuaries in Glasgow.

The Society of Accountants in Aberdeen.

The Association of Accountants in Montreal.

The Institute of Chartered Accountants of Manitoba.

The Institute of Chartered Accountants of Nova Scotia.

The Institute of Chartered Accountants of British Columbia.

The Institute of Chartered Accountants of Saskatchewan.

The Institute of Chartered Accountants of Alberta.

The Institute of Chartered Accountants of New Brunswick.

Officers and Their Duties

5. At the annual meeting in each year, two members of the Institute, not members of the Council, shall be elected Auditors for the ensuing year.

The Auditors shall examine all books of account, vouchers, balance sheets and other financial documents, and report thereon to the members at the annual meeting, and to the Council at least three days before the date of the annual meeting.

6. The President shall preside and preserve order at all meetings of the Institute and Council. In his absence a Vice-President shall exercise the office of President. In the absence of the President

and both Vice-Presidents, a Chairman shall be elected by a majority of those present entitled to vote and voting.

7. The Secretary shall conduct the correspondence, notify members of the Institute and Council of all meetings to be held, record proceedings thereat, keep a register of the Fellows and Associates as required by the Act of incorporation, with their addresses, see that the applications for examination and for membership and the references accompanying the same are in the form prescribed, make the necessary investigations in respect thereto, send all required notices to the members of the Institute and of the Council, and perform such other duties as the Council may direct.

8. The Treasurer shall receive the fees, subscriptions and other moneys accruing to the Institute, dispose of the same as the Council may direct, draw and sign all cheques, keep correct accounts, prepare proper financial statements as of the 30th day of April in each year, and perform such other duties as the Council may direct.

9. All cheques shall be countersigned by the President or a Vice-President and all diplomas and certificates shall be signed by the President (or in his absence by a Vice-President), and by the Secretary, and attested by the seal of the Institute.

10. The Registrar, who need not be a member of the Institute, shall be appointed by the Council, and his term of office, duties and remuneration shall be defined from time to time by a resolution of the Council.

11. The Auditors, Registrar and Examiners shall receive such remuneration as the Council shall from time to time determine.

Committees

12. The Council may from time to time appoint committees for the purpose of facilitating business. The President, Vice-Presidents, Secretary and Treasurer shall be ex-officio members of all committees.

13. The Council shall appoint a Committee on Membership, whose duty it shall be to report to the Council when required upon all matters affecting the conduct and standing of members and students.

14. The Council shall appoint a Committee on Examinations, whose duty it shall be to report to the Council when required upon all matters affecting the fitness and moral character of persons applying to be examined, to make the necessary arrangements for examinations, to appoint examiners and to report to the Council the results of the examinations of the Institute.

15. The Council shall appoint a Library Board, whose duty shall be to report to the Council when required upon all matters affecting the Library of the Institute and who shall be responsible for the conduct thereof. The Registrar for the time being shall be the Librarian.

16. When five members reside in any town or city other than Toronto, they may become a local committee for the purpose of recommending such action as they may deem desirable for the consideration of the Council.

Meetings

17. The annual meeting of the Institute shall be held at such time and place as the Council shall from time to time determine. At least one week's notice shall be given of the annual meeting.

18. Meetings of the Institute for the transaction of general business, the reading of papers and the discussion of questions of interest to the profession, may be held whenever the President or the Council shall deem expedient. At least one week's notice shall be given of such meetings.

19. Special meetings of the Institute shall be called by the President after the receipt of a requisition signed by not less than ten members. At least one week's notice specifying the special business to be brought forward shall be given of such meeting.

20. Meetings of the Institute may be adjourned from time to time by resolution of a majority of the members present; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

21. Meetings of the Council shall be held at least quarterly at such time and place as the President shall determine. At least three days' notice shall be given of all meetings of the Council.

22. Meetings of committees shall be called by the Chairmen, thereof, respectively, upon notice from the Secretary of the matters referred to them by the Council. Committees shall report to the meeting of the Council next following that from which the reference was made. At least three days' notice shall be given of all meetings of committees.

23. The introduction or discussion of political or religious subjects shall not be permitted at any meeting.

24. Seven shall constitute a quorum for the transaction of business at all meetings of the Institute, five at all meetings of the Council and three at all meetings of committees.

25. The proceedings at all meetings shall be governed by the rules laid down in Bourinot's procedure, except as the by-laws of the Institute otherwise provide.

26. At any meeting of the Institute two members may require that the voting upon any question before the meeting shall be by ballot, and the President shall thereupon appoint two Scrutineers for the purpose of taking the vote.

27. At any meeting of the Institute every member present and in good standing shall have a vote.

Registered Students

28. Any person not under eighteen years of age, residing in the Province of Ontario, who shall be certified by two members of the Institute to be of good moral character and habits, may apply to the Council to be registered as a student.

29. Every such applicant shall satisfy the Council that he has passed the Junior Matriculation Examination of the University of Toronto, or an examination deemed by the Council to be equivalent thereto; and shall furnish such evidence as the Council may require that he is otherwise a fit and proper person to be so registered.

30. Every application shall be accompanied by a declaration of the applicant's intention to qualify for admission to membership of the Institute, and in due course to apply therefor, and also by an undertaking to submit to the direction of the Council in all matters relating to studies and practical experience.

31. Any registered student ceasing to reside within the Province of Ontario shall thereupon cease to be a registered student.

32. Students may form an Association for the better advancement of their studies and professional knowledge and for the purpose of making recommendations affecting their joint interests for the consideration of the Council, but all rules or regulations for the self-government of such Association shall only have force or effect when the same shall have been approved by the Council.

Lectures and Classes

33. The Council shall establish facilities for the instruction of Registered Students. The facilities so established shall be under the direction of a Board of Instruction which shall be appointed annually by the Council.

34. The Board of Instruction shall, subject to the approval of the Council, engage lecturers and instructors, determine their compensation, prepare and publish a syllabus and vary the same from time to time as expedient, fix the term of study, prescribe the fees payable therefor, and do or provide anything necessary thereto.

35. Every Registered Student shall enter upon and pursue the course of study prescribed for him by the Board of Instruction, and shall, before being permitted to sit for the examination, produce a certificate from a duly authorized officer of the Board that he has complied with the requirements prescribed in his case.

36. The Board may accept evidence that a Registered Student has complied, in whole or in part, with the equivalent requirements of any Registered Society, and may furnish like evidence whenever by reason of removal to another Province, a student may be required to complete his studies and experience therein.

Examinations

37. The Council shall hold examinations in each year in the City of Toronto, which shall be designated respectively, the Primary, Intermediate and Final Examinations.

38. The Council shall from time to time, as may be expedient, provide facilities for holding examinations elsewhere, concurrently with the examinations held in the City of Toronto, but no such examinations shall be held outside of the Province of Ontario.

39. Practising members of the Institute only shall be eligible for appointment as examiners in Bookkeeping and Accounts, Auditing, Business Investigations and any other accounting subjects which may hereafter be prescribed for examination.

40. Notices shall be sent to registered students, of the time and places of holding the examinations.

Primary Examinations

41. Any registered student may apply to the Council to be examined in the Primary Examination.

42. The Primary Examinations are intended to test the student's knowledge of elementary accounting and business practice and shall be conducted in the following subjects or such variations or modifications thereof as the Council may from time to time deem expedient:—

- (1) Business Correspondence, including Composition, Spelling and Punctuation.
- (2) Arithmetic.
- (3) Bookkeeping.
- (4) The Bills of Exchange Act.

43. Any registered student who has passed the Primary Examination of any Registered Society shall be entitled to exemption from the Primary Examination.

44. The Council shall make such further rules and regulations with respect to the Primary Examinations and exemptions therefrom as may from time to time seem expedient or necessary, and such rules and regulations for the time being shall be read with and form a part of this by-law, and be published in the Year Book of the Institute.

Intermediate Examinations

45. Any registered student not under twenty years of age, who has passed the Primary Examination of the Institute or of any Registered Society, and who has completed two years' service in the offices of practising Chartered Accountants, or three years' continuous practice as a public accountant, may apply to the Council to be examined in the Intermediate Examination.

46. The Intermediate Examination shall include the following subjects :—

- (1) Arithmetic.
- (2) Bookkeeping and Accounts.
- (3) Auditing.
- (4) Mercantile Law.
- (5) Statute Law.

47. Any registered student who has passed the intermediate Examination of any Registered Society, shall be entitled to exemption from the Intermediate Examination.

48. The Council shall make such further rules and regulations with respect to the Intermediate Examination and exemptions therefrom as may from time to time seem expedient or necessary, and such rules and regulations for the time being shall be read with and form a part of this by-law, and be published in the Year Book of the Institute.

Final Examinations

49. Any registered student not under twenty-one years of age, who has passed the Intermediate Examination of the Institute or of any Registered Society, and who has completed four years' service in the offices of practising Chartered Accountants or five years continuous practice as a public accountant, two years of which service or practice shall be the two years immediately preceding, may apply to the Council to be examined in the next Final Examination, or in any Final Examination which may be held within two years thereafter, notwithstanding subsequent change of residence.

50. The Final Examinations shall include the following subjects :—

- (1) Bookkeeping and Accounts.
- (2) Auditing.
- (3) Business Investigations.
- (4) Statute Law.

51. Any person who has passed the Final Examination of a Registered Society and is a member of such Society, shall be entitled to become an Associate Member of the Institute without further examination, if such person resides, or the firm of which he is a member practises, within the Province.

52. The Council shall make such further rules and regulations with respect to the Final Examinations as may from time to time seem expedient or necessary, and such rules and regulations for the time being shall be read with and form a part of this by-law, and be published in the Year Book of the Institute.

Fees

53. Every candidate whom the Council shall refer for examination shall, before such examination takes place, pay the following fee :—

For the Primary Examination, \$15.00.

For the Intermediate Examination, \$20.00.

For the Final Examination, \$25.00.

To the candidates passing first in order of merit in the Primary, Intermediate and Final Examinations, the Institute shall credit an amount equivalent to the examination fee of the Intermediate and Final Examinations, and the Membership entrance fee respectively, such amount to be so applied.

54. Every person who shall be admitted an Associate shall thereupon pay an entrance fee of Fifty Dollars (\$50.00).

55. Every Associate who shall be admitted a Fellow shall thereupon pay a fee of Fifty Dollars (\$50.00).

56. Every member shall pay on the first day of May in each year, for the year then ensuing, if practising or residing within the Province, a fee of Twenty Dollars (\$20.00), or if not practising or residing within the Province, a fee of Ten Dollars (\$10.00).

57. Any member whose fees are not paid within three calendar months after the date when such fees have become due and payable, may be suspended by the Council from the privileges of membership. The payment of such fees shall (subject to the provisions of the by-law next following) reinstate a suspended member.

58. Any member whose fees are not paid within three calendar months after the date when fees for the year next following have become due and payable, may be deemed to have thereby terminated his membership, and the Council may direct that his name be removed from the register. Such person may be readmitted upon such terms as the Council shall approve.

59. Any member not in arrear for fees may terminate his membership by giving notice in writing to the Secretary.

Conduct

60. Members practising in partnership with persons who are not members shall not permit the partnership or firm to be described as "Chartered Accountants." Any person named in connection with such partnership by advertisement or otherwise shall be deemed a partner for the purpose of this by-law.

61. No member shall engage in any business, profession or employment, or adopt any form of advertising or procuring business which in the opinion of the Council is objectionable in a member of this Institute.

Trails and Penalties

62. Any member, or any aggrieved person, may prefer to the Council in writing, charges of default or misconduct on the part of a member or a student. If in the opinion of the Council a formal investigation is required, a special meeting of the Council shall be held for that purpose, of which ten days notice shall be given to all concerned. If the charges be sustained, the offender may be dealt with as the Council shall see fit.

63. Upon it being made to appear subsequently that for want of sufficient information or for other reasonable cause, the finding of

the Council upon any charge of default or misconduct was unjust or inequitable, the Council may by resolution to that effect and subject to like restrictions, further investigate the charges and may thereupon confirm, modify or revoke their previous findings as shall seem just.

64. Charges against a member or a student of an infraction of a by-law may be investigated summarily at any meeting of the Council, of which the member or student charged shall be given one week's notice. If the charges be sustained, the offender may be dealt with as the Council shall see fit.

65. Notices under the three last preceding by-laws, excepting notices to members of the Council, shall be served personally or sent by registered letter, as the Council shall direct.

66. The Council shall not be bound to take notice of any article or communication which may appear in the public prints or which may be addressed to any member or other person individually, or of any verbal statements, affecting the conduct of a member or a student.

Miscellaneous

67. The forms set forth in the schedule to these by-laws shall be used in cases to which they are applicable, with such alterations, if any, as the Council may from time to time determine; and all notes and directions thereon shall be deemed part of the forms and be observed accordingly.

68. In the event of any dispute as to the intent or meaning of any of these by-laws or any by-law which may hereafter be made; the interpretation by the Council shall be final and conclusive.

69. All former by-laws of this Institute are hereby repealed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
ONTARIO

COUNCIL 1921-22.

PRESIDENT—RUTHERFORD WILLIAMSON

1ST VICE-PRESIDENT—ARNOLD MORPHY

2ND VICE-PRESIDENT—FRANCIS G. JEWELL

BURNS, ROBERT EASTON.....	KINGSTON
CRAWLEY, ARTHUR ALFRED.....	OTTAWA
DILWORTH, ROBERT JAMES.....	TORONTO
EDDIS, J. WYNDHAM.....	TORONTO
EDWARDS, GEORGE.....	TORONTO
FLEMING, C. A.....	OWEN SOUND
HIGGINS, FRED PAGE.....	TORONTO
JEWELL, FRANCIS G.....	LONDON
MORPHY, ARNOLD.....	TORONTO
MULHOLLAND, GUSTAVUS MANSSEN.....	TORONTO
NEFF, ARTHUR CLIFTON.....	TORONTO
ROBERTS, FRANK E.....	TORONTO
SIME, T. WATSON.....	TORONTO
WELCH, HENRY J.....	TORONTO
WILLIAMSON, RUTHERFORD.....	TORONTO

SECRETARY-TREASURER—T. WATSON SIME

AUDITORS—W. K. C. CAMPBELL AND KRIS A. MAPP

SOLICITORS—TILLEY, JOHNSTON, THOMSON & PARMENTER

ADVISORY BOARD OF PAST PRESIDENTS

E. R. C. CLARKSON	HARRY VIGEON	F. H. MACPHERSON
W. T. KERNAHAN	W. B. TINDALL	RALPH E. YOUNG
CHARLES S. SCOTT	GEORGE U. STIFF	W. R. MORRIS
OSLER WADE	A. K. BUNNELL	BRYAN PONTIFEX
EDMOND GUNN		

REPRESENTATIVES ON THE COUNCIL OF THE

DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS:—

ARTHUR C. NEFF A. K. BUNNELL W. R. MORRIS

REGISTRAR—W. J. VALLEAU

Institute Offices, Continental Life Building, Toronto

NAMES, ADDRESSES AND DATES OF ADMISSION OF MEMBERS OF THE INSTITUTE
ALPHABETICAL LIST

The letters prefixed to names indicate membership of other Societies as follows :

- A The Institute of Chartered Accountants in England and Wales.
- B The Society of Incorporated Accountants and Auditors.
- C The Society of Accountants in Edinburgh.
- D The Institute of Accountants and Actuaries in Glasgow.
- E The Society of Accountants in Aberdeen.
- F The Association of Accountants in Montreal.
- G The Institute of Chartered Accountants of Manitoba.
- H The Institute of Chartered Accountants of Nova Scotia.
- I The Institute of Chartered Accountants of British Columbia.
- J The Institute of Chartered Accountants of Saskatchewan.
- K The Institute of Chartered Accountants of Alberta.
- L The Institute of Chartered Accountants of New Brunswick.

*Indicates members who have served on the Council.

- Adams, Arthur William—36 Toronto Street, Toronto Ont. June 29th, 1908.
- Allen, Loftus Annesley (Harbinson & Allen)—408 Manning Chambers, Toronto, Ont. June 22nd, 1915.
- Anderson, James Donald—303 Board of Trade Building (P. O. Box 95), Montreal, Que. May 26th, 1910.
- Anderson, William Henry Penny—33 Henrietta Street, Covent Garden, London, W. C. 2 England. June 28th, 1900.
- *Andrews, Walter Sherwood—107 Wellington St., West, Toronto, Ont. February 26th, 1891. Fellow, February 26th, 1891.
- Archer, Leonard Waldeck—4 Coulson Avenue, Toronto. June 27th, 1919.
- Arnold, Arthur (with Lawson, Welch & Campbell)—59 Yonge Street, Toronto. June 25th, 1920.
- Atkinson, James Leonard—Room 21, 10 Adelaide Street East, Toronto, Ont. June 29th, 1908.
- G Baker, Robert Jemmerson (Seburn, Ferguson & Baker)—896 McMillan Avenue, Winnipeg, Man. June 16th, 1911.
- K Baldwin, Harry Warren—64 Charles Street East, Toronto, Ont. July 14th, 1915.
- Banks, Norman Beaumont—149 Summer Avenue, Newark, N.J. June 27th, 1919.
- *Barber, Henry (Henry Barber & Co.)—6 King Street West, Toronto, Ont. February 21st, 1889. Fellow, February 15th, 1895.
- Bates, Herbert Stanley (Blatch, Bates & Co.—193 Sparks Street, Ottawa, Ont. June 14th, 1912.
- D Baxter, Percy Charles (Macintosh, Cole & Robertson)—26 Queen Street East, Toronto, Ont. January 25th, 1916.
- Begg, George Macdonald—Suite 10, 18 Oriole Gardens, Toronto, Ont. June 21st, 1905.
- A F Bennett, E. James (Geo. A. Touche & Co.)—1528 Bank of Hamilton Bldg., Toronto, Ont. January 27th, 1914.
- Bennett, Robert Joseph—815 Land Title Building, Philadelphia, Pa. June 27th, 1902.

- Benson, William Charles (with Oscar Hudson & Co.)—213 Dominion Savings Bldg., London, Ont. April 24th, 1918.
- Berner, Walter Godfrey (Wilton C. Eddis & Sons)—Continental Life Building, Toronto. June 27th, 1919.
- Blackmore, Sydney Herbert—425 Fidelity Building, Buffalo, N.Y. June 18th, 1909.
- *Blanchard, Alexander—93 Werthington Street West, North Bay, Ont. October 17th, 1889.
- *Blatch, George Lockhart (Blatch, Bates & Co.)—193 Sparks Street, Ottawa, Ont. June 1st, 1895. Fellow, June 18th, 1906.
- Blomfield, Fred Charles—979 Woodward Avenue, Detroit, Mich. June 27th, 1904.
- Borrett, Osborne Walter—Mexico and Northwest Railway Company, El Paso, Texas, June 22nd, 1915.
- Bounsall, Richard Heyward (Blatch, Bates & Co.)—193 Sparks Street, Ottawa. June 27th, 1919.
- CF Brodie, Alexander Bertram (Price, Waterhouse & Co.)—145 St. GI James Street, Montreal, Que. May 27th, 1913.
- Brown, James Albert—Athena Apartments, Toronto, Ont. June 22nd, 1915.
- *Bunnell, Arthur Kennedy—City Hall, Brantford, Ont. June 27th, 1902. Fellow, June 17th, 1909.
- Burke, Thomas John (Cost Association of the Paper Industry)—18 E. 41st Street, New York. June 27th, 1919.
- *Burns, Robert Easton—Ontario Chambers, Kingston, Ont., June 16th, 1911. Fellow, June 21st, 1921.
- Calder, Alexander Gollan, 58 Bank of Toronto Chambers, London, Ont. February 26th, 1918.
- Campbell, Gordon Dancy (Lawson, Welch & Campbell)—59 Yonge Street, Toronto, Ont. June 18th, 1909.
- F Campbell, Samuel Ross (P. S. Ross & Sons)—142 Notre Dame Street West, Montreal, Que. July 14th, 1914.
- Campbell, Walter Keith Colin (with Lawson, Welch & Campbell)—59 Yonge Street, Toronto. June 25th, 1920.
- A Campbell, William Bynner (Price, Waterhouse & Co.)—56 Pine Street, New York. March 19th, 1907.
- Care, Harry (Chamberlain, Care & Chamberlain)—606 Prudential Building, Buffalo, N.Y. June 26th, 1914.
- Carswell, William—Northern Electric Co., 121 Shearer Street, Montreal. June 27th, 1919.
- Chamberlain, Alexander Fraser—74 Nepean Street, Ottawa, Ont. April 22nd, 1910.
- D Chambers, Norman Gilbert—79 Wall Street, New York, January 31st, 1912.
- *Clark, Thomas Sinclair—Box 789 Cobalt, Ont. November 21st, 1893. Fellow, November 30th, 1915.
- Clarke, John (Clarke, Houston & Co.)—58 Wellington Street, East, Toronto, Ont. June 22nd, 1915.
- Clarke, Joseph James—Room 5, 25 Toronto Street, Toronto, Ont. June 26th, 1914.
- B *Clarkson, Edward Roper Curson (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. February 1st, 1883. Fellow, November 4th, 1885.
- B *Clarkson, Geoffrey Teignmouth (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. March 16th, 1910. Fellow, March 25th, 1913.

- Clowes, Francis John—c/o Touche, Niven & Co., 42 Broadway, New York, N. Y. July 10th, 1906.
- Cooper, Robert Jaffray—43 Heath Street East, Toronto, Ont. July 10th, 1906.
- G Corbould, Charles Durie—743 Somerset Block, Winnipeg, Man. June 21st, 1905.
- A Cowell, Percy Septimus—42 Bedford Gardens, Kensington, London W. 8, England. February 4th, 1913.
- Craig, William Herchmer—59 Gore Street, Kingston, Ont. June 28th, 1907.
- Crawford, Joseph Edmund,—Cuthbertson Block, Fort William, Ont. June 18th, 1917.
- *Crawley, Arthur Alfred—(Crawley, Milne & Co.) 50 Albert Street, Ottawa, Ont. June 24th, 1913.
- ✓ Cringan, John Waugh—521 Front Street East, Toronto, Ont. June 17th, 1910.
- H Crowell, Harvey Edwin—Chronicle Building, Halifax ,N.S. February 4th, 1913.
- ✓ Cullen, Herbert Austin—540 Ouillette Ave., Windsor, Ont. June 25th, 1920.
- Cunningham, George de Hertel (Cunningham & Co.)—165 Sparks Street, Ottawa, Ont. March 16th, 1910.
- Cunningham, James Frederick (Cunningham & Co.)—165 Sparks Street, Ottawa, Ont. March 16th, 1910.
- Dawson, Percy Henry Burditt—Union Bank Chambers, Fort William, Ont. June 23rd, 1899. Fellow, May 26th, 1910.
- D I G Dewar, Douglas (Marwick, Mitchell & Co.)—1603 Royal Bank Bldg., Toronto. April 25th, 1919.
- A I Dickinson, Sir Arthur Lowes (Price, Waterhouse & Co.)—3 Fredericks Place, Old Jewry, London, Eng. July 31st, 1913.
- *Dilworth, Robert James (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. June 30th, 1903. Fellow, November 30th, 1915.
- Doggerell, Alfred James—776 Wellington Street, London, Ont. June 18th, 1917.
- Draper, Gordon Victor—402 Royal Bank Bldg., Toronto, Ont. June 17th, 1918.
- Dunlop, William Macewan—50 Park Avenue, Ottawa, Ont. March 16th, 1910.
- Eddis, Charles Sheppard (Wilton C. Eddis & Sons)—Continental Life Building, Toronto, Ont. June 17th, 1910.
- *Eddis, John Wyndham (Wilton C. Eddis & Sons)—Continental Life Building, Toronto, Ont. June 18th, 1909. Fellow, June 21st, 1921.
- Edwards, Alfred Geoffrey (Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto, Ont. June 18th, 1917.
- I K Edwards, Arthur Harper (Edwards, Morgan & Co.)—710 London Building, 626 Pender Street West, Vancouver, B. C. June 27th, 1902.
- G H *Edwards, George (Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto, Ont. February 21st, 1889. Fellow, October 17th, 1889 ; Life Member, 1902.
- I J K
- F Edwards, Hugh Percival (Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto, Ont. June 24th, 1913.

- Edwards, John Macham (with Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto, June 25th, 1920.
- Edwards, Oswald Noel (Edwards, Morgan & Co.)—604 McGill Building, Montreal, Que. June 18th, 1917.
- Falls, Alexander Frederick—Victoria Block, Chatham, Ont. June 27th, 1904. Fellow, November 30th, 1915.
- Farish, David Howard Maxwell—121 Shearer Street, Montreal, Que. June 25th, 1920.
- Fenton, Wilson—17-31 King Street East, Toronto, Ont. June 30th, 1903.
- Ferguson, Walter Scott (Seburn, Ferguson & Baker)—52 Tranby Ave., Toronto, Ont. June 28th, 1907.
- Fielden, Hecter William—401 Flanders Building, Philadelphia, Pa. June 16th, 1911.
- C Fisher, Alastair MacDougall—Montreal, Que. March 22nd, 1910.
- C K FitzGerald, Arthur Stanley—22 Huron and Erie Building, Windsor. June 27th, 1919.
- *Fleming, Christopher Alexander—823-2nd Avenue East, Owen Sound, Ont. February 15th, 1895. Fellow, April 9th, 1903.
- Gawthorp, Henry Hallas (with Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto. June 27th, 1919.
- Geggie, Thomas Paterson (with Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto, Ont. June 17th, 1918.
- B George, James—921 Bank of Hamilton Building, Toronto, Ont. March 28th, 1911.
- Gerry, Nelson Byron (with Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. June 17th, 1918.
- Gibbs, Frank Percy—McLagan Furniture Co., Stratford, Ont. June 17th, 1918.
- G Gilbert, Frederick Charles (Gilbert & Laird)—305 Electric Railway Chambers, Winnipeg, Man. July 19th, 1901.
- Glatt, George Frederick (Peters, Glatt & Rumble)—911 C. P. R. Building, Toronto. June 27th, 1919.
- Godfrey, Thomas Broley—384 Yonge Street, Toronto. June 25th, 1920.
- Godson, Walter Pollard (W. P. Godson & Co.)—30 Leopold Street, Toronto, Ont. June 21st, 1905.
- *Goldman, Leopold—112 King Street West, Toronto, Ont. June 1st, 1883. Fellow, February 15th, 1895.
- Goodman, Morris—Room 34, 14 St. John Street, Montreal, Que. June 26th, 1914.
- B *Gordon, Harry Duncan Lockhart (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. June 21st, 1898. Fellow, November 30th, 1915.
- C F Graham, James Maxtone (Riddell, Stead, Graham & Hutchison)—34 Charlotte Square, Edinburgh, Scotland. June 29th, 1908.
- Grant, John George, B.A. (with Price, Waterhouse & Co.)—134 South La Salle Street, Chicago, Ill. June 21st, 1905.
- Grant, Russell Reeves—302 Avenue Road, Toronto. June 25th, 1920.

ONTARIO MEMBERS

- D Gray, James Cruden (Mackay, Irons & Co.)—165 Broadway, New York, N.Y. October 27th, 1914.
- K Gregory, Eustace Tatton—P. O. Box 206, Windsor, Ont. February 8th, 1921.
- Guilfoyle, Harvey Edward (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto. June 17th, 1918.
- *Gunn, Edmond (Gunn, Roberts & Co.)—25 Toronto Street, Toronto, Ont. June 21st, 1898. Fellow, June 26th, 1914.
- A Hammill, Lansdale (Marwick, Mitchell & Co.)—1603 Royal Bank Bldg., Toronto. June 15th, 1920.
- Hampton, James Henry (Fred Page Higgins & Co.)—47 Adelaide St., East, Toronto, Ont. June 18th, 1917.
- A Harbinson, Vincent D. (Harbinson & Allen)—408 Manning Chambers, Toronto, Ont. May 26th, 1914.
- *Hardy, James (Jenkins & Hardy)—15½ Toronto Street, Toronto Ont. March 18th, 1886. Fellow, February 15th, 1895.
- A Hawkins, Leslie Whitem (George A. Touche & Co.)—Basildon House, Moorgate Street, London, E. C., Eng. February 18th, 1909.
- Haywood, Leopold John, Dunnville, Ont. June 26th, 1914.
- *Higgins, Fred Page (Fred Page Higgins & Co.)—47 Adelaide Street East, Toronto, Ont., June 28th, 1907. Fellow June 21st, 1921.
- Hilborn, Melvin (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, Ont. June 17th, 1918.
- K Hill, Thomas Percy (with Price Waterhouse & Co.)—145 St. James Street, Montreal, Que. June 15th, 1920.
- Hillman, Hobart Percy Lee—648 Ontario Street, Toronto, Ont. June 27th, 1904.
- Houston, William Frederick (Clarke, Houston & Co.)—58 Wellington Street East, Toronto. June 27th, 1919.
- Howson, Ernest Jay (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, Ont. June 16th, 1911.
- G *Hudson, Oscar Murray (Oscar Hudson & Co.)—32 Church Street, Toronto, Ont. October 17th, 1889. Fellow, June 27th, 1919.
- A Hughes, John—Hudson Bay Company, Winnipeg, Man. January 27th, 1914.
- C Huie, David Herbert (D. H. Huie & Ramage) 21 Rutland Square, Edinburgh, Scotland. June 29th, 1908.
- Hume, James Smith (Barrow, Wade, Guthrie & Co.)—25 Broad Street, New York City. June 17th, 1918.
- Hurst, Frederick Clarence (Gunn, Roberts & Co.)—25 Toronto Street, Toronto, Ont. June 22nd, 1915.
- Jackson, John Albert—150 Carling Avenue, Ottawa, Ont. June 23rd, 1899.
- C Jamieson, Henry Tonkinson (Riddell, Stead, Graham & Hutchinson)—807 Royal Bank Building, Toronto, Ont. August 26th, 1912.
- Jardine, Charles Allward (Barrow, Wade, Guthrie & Co.)—25 Broad Street, New York City. June 18th, 1917.

- Jenkins, Thomas (Jenkins & Hardy)—15½ Toronto Street, Toronto, Ont. March 16th, 1910.
- A *Jephcott, Alfred—469 King Street West, Toronto, Ont. February 26th, 1891. Fellow, April 24th, 1893.
- *Jewell, Francis George—314 Dominion Savings Building, London, Ont. March 16th, 1910. Fellow, June 27th, 1919.
- G Jex, William Raymond—307 McIntyre Block, Winnipeg, Man. July 10th, 1906.
- Johnson, Robert Wilbur—Southern Loan Chambers, St. Thomas, Ont. June 27th, 1904.
- Johnston, Rice Lindsay—271 Richmond Street, West, Toronto. June 27th, 1919.
- *Kernahan, William Thomas—17 Gould Street, Toronto, Ont. November 21st, 1893. Fellow, April 9th, 1903; Life Member, 1908.
- Kerr, Frank Lester (with Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. June 18th, 1917.
- Kettlewell, Wilfred Coyne—105 Davenport Road, Toronto, Ont. June 21st, 1905.
- Kidd, Francis Howard—Box 254, Nanimo, B.C. June 25th, 1894.
- C Lang, Joseph Neilson—(Rutherford, Williamson & Co.)—86 Adelaide Street East, Toronto, Ont. Feb. 4th, 1913.
- *Langley, James P.—McKinnon Building, Toronto, Ont. June 28th, 1900. Fellow, April 9th, 1903.
- Larmonth, Ernest Arthur (Larmonth & Cunningham)—46 Elgin Street, Ottawa, Ont. March 16th, 1910.
- Law, William Webster (with Price, Waterhouse & Co.)—56 Pine Street, New York. July 10th, 1906.
- Lawless, Thomas Egerton (Lawson, Welch & Campbell,—59 Yonge Street, Toronto, Ont. June 17th, 1918.
- Lord, Homer Lewis—St. Blaise, Que. June 21st, 1905.
- Lorimer, Walter Alexander (with Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto. June 25th, 1920.
- C Mackay, Charles Gordon—c/o Hayes Wheel Co., Jackson, Mich. February 4th, 1913.
- Mackay, John—70 Centre Ave., Toronto. February 3rd, 1920.
- Macnamara, Theo. James (with Edwards, Morgan & Co.)—10 Adelaide Street East, Toronto, Ont. June 20th, 1916.
- *Macpherson, Frank Herbert—Box 495 R. F. D. No. 1, San Gabriel, Cal. July 9th, 1897. Fellow, February 25th, 1902.
- Mapp, Jai Victor (Mapp & Mapp)—14 King Street East, Toronto, Ont. June 17th, 1918.
- Mapp, Kris Austin—(Mapp & Mapp)—14 King Street East, Toronto. June 25th, 1920.
- Martin, Frances Clement—4 Brewster Terrace Brookline, Mass. June 27th, 1919.
- Martin, James Sanford—67 Lowther Avenue, Toronto, Ont. June 28th, 1900.
- Martin, Norman Leslie—73 King Street West, Toronto, Ont. June 18th, 1917.
- A I May, George Oliver (Price, Waterhouse & Co.)—56 Pine Street, New York, N.Y. October 28th, 1910.

- Merson, George Ogston (Geo. O. Merston & Co.)—807 Lumsden Building, Toronto, Ont. June 27th, 1902.
- Merson, Harry Stuart—Apt. 32-601 W. 168th Street, New York. June 25th, 1920.
- Metherell, William Charles—21 Sun Life Building, Hamilton, Ont. June 25th, 1920.
- A Miller, Arthur Axel (Annan Dexter & Co.) 21 Ironmonger Lane London, E. C. 2, Eng. December 23rd, 1913.
- Milne, Andrew Murray (Crawley Milne & Co.)—50 Albert Street, Ottawa, Ont. June 17th, 1918.
- I G Mitchell, Simpson Roger (Marwick, Mitchell & Co.)—1603 Royal Bank Bldg., Toronto, Ont. April 25th, 1919.
- A Moore, Roderick Edward (Price, Waterhouse Peat & Co.)—Savoy Chambers, Cairo, Egypt. June 29th, 1908.
- *Morgan, William Pomeroy (Edwards, Morgan & Co.)—10 Adelaide St. East, Toronto, Ont. June 30th, 1903.
- *Morphy, Arnold—50 Maitland Street, Toronto, Ont. June 30th, 1903. Fellow, November 30th, 1915.
- *Morris, Wilfred Radenhurst—375 Walter Street, Peterborough, Ont. June 30th, 1903. Fellow, November 30th, 1915.
- Morrison, George William—70 Wellington Street West, Toronto, Ont. June 21st, 1905.
- Morrison, Samuel Alvin—36 King Street East, Toronto, Ont. June 24th, 1913.
- Mortimer, Herbert—Confederation Life Building, Toronto, Ont. July 9th, 1897.
- *Mulholland, Gustavus Mansen (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, Ont. June 18th, 1909.
- F Mundell, William James—27 Alloway Avenue, Winnipeg, Man. June 21st, 1905.
- Mutrie, James Thomas (Mutrie & Mutrie)—Vernon, B.C. June 27th, 1904.
- K McCannel, Donald Archibald (McCannel Bros. & Co.)—217 Dominion Bank Bldg., Calgary, Alta. June 18th, 1909.
- K McCannel, Malcolm Campbell (McCannel Bros. & Co.)—210 Macleod Building, Edmonton, Alta. June 24th, 1913.
- McClatchie, Grant Alfred (with the U.S. Finishing Co.)—320 Broadway, New York, N.Y. June 14th, 1912.
- McClean, Clifford Mott (Thorne, Mulholland, Howson and McPherson) 1026 Bank of Hamilton Building, Toronto, Ont. June 25th, 1920.
- McClelland, Donald MacKenzie (Price, Waterhouse & Co.)—802 Royal Bank Building, Toronto, Ont. July 10th, 1906. Fellow, June 21st, 1921.
- McDermid, Edward Blake—703 Rogers Building, Vancouver, B.C. June 27th, 1902.
- McKinnon, William Miles—9 Rue Lincoln, Paris, France. June 26th, 1914.
- McLeod, Norman Buchanan—803 Kent Building, Toronto, Ont. June 18th, 1917.
- McMichael, Albert Roland (Wilton C. Eddis & Sons)—Continental Life Building, Toronto, Ont. June 14th, 1912.
- McMillan, James—295 Princess Avenue, London, Ont. June 23rd, 1910.

- McNabb, John Dermott (with Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. June 18th, 1917.
- McPherson, Roy Sharvel (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, Ont. June 16th, 1911.
- Nasmith, Henry Clark—Port Perry, Ont. June 24th, 1913.
- *Neff, Arthur Clifton (Neff, Robertson & Co.)—70 Victoria Street, Toronto, Ont. April 15th, 1884. Fellow, November 21st, 1899.
- C Niven, John Ballantine (Touche, Niven & Co.)—42 Broadway, New York, N.Y. February 18th, 1909.
- Osler, Arthur Ernest—Jordan & Melinda Streets, Toronto, Ont. June 23rd, 1910.
- Over, Spencer Henry—271 Doyle Avenue, Providence, R. I. June 28th, 1900.
- D Parker, Angus McColl—18 Scarborough Road, Toronto. February 16th, 1920.
- Parker, Charles James—10 William Street, Brantford, Ont. July 10th, 1906.
- Pelling, Charles Henry (with Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto. June 27th, 1919.
- Pentelow, William Mitchener—11 Stuart Street, Guelph, Ont. July 9th, 1897.
- Peters, Gordon Alexander (Peters, Glatt & Rumble)—911 C. P. R. Building, Toronto, Ont. June 18th, 1917.
- Pettit, William Holland (Oscar Hudson & Co.)—32 Church Street, Toronto, Ont. June 16th, 1911.
- Pirie, William Simpson (Crawley, Milne & Co.)—50 Albert Street, Ottawa, Ont. June 25th, 1920.
- A *Pontifex Bryan—906 Excelsior Life Building, Toronto, Ont. February 18th, 1909. Fellow, June 26th, 1914.
- B Pyper, Hugh (Forster, Green & Co., Ltd.)—Belfast, Ireland. November 25th, 1913.
- K Reid, Stanley Ruddell (Thorne, Mulholland, Howson & McPherson)—501 Bank of Hamilton Bldg., Hamilton, Ont. April 25th, 1919.
- Roberts, Charles Percy (with J. P. Langley & Co.), McKinnon Building, Toronto, Ont. June 27th, 1919.
- *Roberts, Frank Ernest (Gunn, Roberts & Co.)—25 Toronto Street, Toronto, Ont. July 10th, 1906.
- C Robertson, Ian Peter McIntosh (Neff Robertson & Co.)—70 Victoria Street, Toronto, Ont. February 4th, 1913.
- Robertson, John Bissland (Robertson, Robinson, Armstrong & Co.)—24 King Street West, Toronto, Ont. June 22nd, 1915.
- Robins, John Franklin—1501 Royal Bank Bldg., Toronto, June 25th, 1920.
- B Robinson, George Alexander—1023 Shirley Ave., Norfolk, Va. June 14th, 1912.
- A F G *Robinson, Malcolm Hugh (George A. Touche & Co.)—Lewis Building, 17 Street John St., Montreal Que., February 18th, 1909. Fellow, June 27th, 1919.
- G J Ronald, William Sidney—Lindsay Building, Winnipeg, Man. June 21st, 1905.
- F Rcass, John W. (P. S. Ross & Sons)—142 Notre Dame Street West, Montreal, Que. July 14th, 1914.

- Ross, William James, B.A.—Sudbury, Ont. June 21st, 1905.
- D Rougive, John Norman—510 Union Bank Building, Ottawa, Ont. November 26th, 1917.
- D G Rowbotham, Geoffrey Guthrie (Price, Waterhouse & Co.)—145 St. James St., Montreal, Que. April 24th, 1918.
- Rowlands, Richard Fellows—316 Confederation Life Bldg., Toronto, Ont. June 16th, 1911.
- Rumble, Isaac Albert, B.A.—(Peters, Glatt & Rumble)—911 C. P. R. Building, Toronto, Ont. June 24th, 1913.
- *Scott, Charles Sumner—28 James Street South, Hamilton, Ont. June 28th, 1900. Fellow, June 21st, 1905.
- A Scott, Sholto Cromarty—City Hall, Toronto. November 26th, 1918.
- *Scully, John Meshach (Scully & Scully)—Kitchener, Ont. June 21st, 1898. Fellow, February 25th, 1902.
- Seburn, Thaddeus I. (Seburn, Ferguson & Baker)—19 Melinda Street, Toronto, Ont. March 16th, 1910.
- Shepard, Alfred Byron (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, Ont. June 20th, 1916.
- J Shepherd, Arthur Bromilow (Marwick, Mitchell & Co.)—1603 Royal Bank Bldg., Toronto, Ont. June 15th, 1920.
- Shiach, Harold Alexander—(Rutherford Williamson & Co.) 86 Adelaide St. East, Toronto, Ont. June 25th, 1920.
- C Shiell Robert (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. December 21st, 1908.
- Short, Frank George—43 Victoria Street, Toronto, Ont. June 18th, 1917.
- Shultis, Adam—44 William Street, Brantford, Ont. June 28th, 1900.
- D *Sime, Thomas Watson (Stiff Bros. & Sime)—728 Bank of Hamilton Building, Toronto, Ont. March 19th, 1907. Fellow, June 24th, 1913.
- Smeeton, Arthur Ernest—Lytton, Sonoma County, California, June 23rd, 1899.
- *Smith, George Ernest Faulkner—corner Main and James Streets, Hamilton, Ont. June 27th, 1904.
- Smith, James Sewell—(with Rutherford Williamson & Co.) 86 Adelaide St. East, Toronto, Ont. June 25th, 1920.
- Sorley, Stewart Hamilton (Thorne, Mulholland, Howson & McPherson) 1026 Bank of Hamilton Building, Toronto, Ont. June 17th, 1918.
- Soutar, Alexander Findlay (with Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. June 17th, 1918.
- Stephens, Herman Archibald—22 Church Street, Toronto, Ont. June 17th, 1918.
- J Stephens, Robert Erl—320 St. George Street, Toronto, Ont. January 27th, 1919.
- Stiff, Frederick James (Stiff Bros. & Sime)—728 Bank of Hamilton Building, Toronto, Ont. June 28th, 1907.
- *Stiff, George Ussher (Stiff Bros. & Sime)—728 Bank of Hamilton Building, Toronto, Ont. June 27th, 1902. Fellow, June 17th, 1909. Life Member, 1913.
- *Stone, Charles Edgar—7 King Street West, Toronto, Ont. May 1st, 1891.
- *Sutcliffe, John Ingham—28 Wellington Street East, Toronto, Ont. June 21st, 1905.

- C G Tait, Andrew Wilson (George A. Touche & Co.)—Basildon House, Moorgate Street, London, E. C., Eng. February 18th, 1909.
- Taylor, Stephen Alexander—345 Portage Ave., Winnipeg, Man. June 27th, 1919.
- C Taylor, William Dunbar (Clarkson, Gordon & Dilworth)—15 Wellington Street West, Toronto, Ont. October 28th, 1910.
- Thomasson, Thomas Wells—Box 579, R.F.D. No. 11, Los Angeles, California, U.S.A. June 29th, 1908.
- K Thompson, William Herbert A. (Edwards, Morgan & Co.)—614 Herald Building, Calgary, Alta. June 18th, 1909.
- D F Thomson, William Garth (Marwick, Mitchell & Co.)—277 Beaver Hall Hill, Montreal, June 15th, 1920.
- Thorne, John Leonard (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, Ont. June 18th, 1917.
- *Tindall, William Buchan—26 Ernest Avenue, Toronto, Ont. June 20th, 1883. Fellow, April 9th, 1903. Life Member 1920.
- Todd, Archibald Hamilton—245 Bathurst Street, Toronto. June 25th, 1920.
- B Tolley, William Alfred—City Hall, Ottawa, Ont. March 23, 1915.
- C Touche, Sir George (George A. Touche, & Co.)—Basildon House, Moorgate Street, London, E. C., Eng. February 18th, 1909.
- Turner, James—Audit Department, T. Eaton Co., Ltd., Toronto, Ont. June 18th, 1917.
- onto, Ont. June 20th, 1916.
- C Urquhart, Charles Rodger (Marwick, Mitchell & Co.)—1 and 3 Regent St., Waterloo Place, London, S. W. 1, England. May 25th, 1915.
- Vanstone, Harold Wilkinson (Thorne, Mulholland, Howson & McPherson)—1026 Bank of Hamilton Building, Toronto, June 20th, 1916.
- B *Vigeon, Harry (Vigeon & Co.)—2 Leader Lane, Toronto, Ont. April 16th, 1891. Fellow, November 25th, 1905.
- Vigeon, Harry Frank (Vigeon & Co.)—2 Leader Lane, Toronto, Ont. March 16th, 1910.
- *Wade, Osler—32 Front Street West, Toronto, Ont. June 27th, 1902. Fellow, June 17th, 1909.
- Walker, Albert James (Rutherford Williamson & Co.)—86 Adelaide Street East, Toronto, Ont. June 27th, 1902.
- Wallace, John Dickie (Rutherford Williamson & Co.)—86 Adelaide Street East, Toronto, Ont. June 20th, 1916.
- A Waterhouse, Sir Nicholas Edwin (Price, Waterhouse & Co.)—3 Fredericks Place, Old Jewry, London, Eng. October 28th, 1910.
- G Webb, T. Harry (Geo. A. Touche & Co.)—707 McArthur Bldg., Winnipeg, Man. January 27th, 1914.
- Welch, George Andrew—300 Jackson Bldg., Ottawa, Ont. June 18th, 1917.
- *Welch, Henry James (Lawson, Welch & Campbell)—Crown Life Building, 59 Yonge Street, Toronto, Ont. June 29th, 1908. Fellow, June 21st, 1921.
- West, William Henry (West & Flint)—50 Pine Street, New York, N.Y. June 23rd, 1899.

- G Westervelt, James William—London, Ont. June 27th, 1902.
 White, Charles Edgar (Edwards, Morgan & Co.)—705 Electric
 Railway Chambers, Winnipeg, Man. June 22nd, 1915.
 Wilkes, Paul Henry—701 Alworth Building, Duluth, Minn. June
 27th, 1919.
 *Williamson, Rutherford (Rutherford Williamson & Co.)—Mer-
 chants Fire Chambers, 86 Adelaide Street East, Tor-
 onto, Ont. March 16th, 1910. Fellow June 21st, 1921.
- A Wilmot, Henry Walter—129 Front Street, New York, N.Y. July
 8th, 1910.
 Willis, William Henry—Room 726, 1400 Broadway, New York.
 June 25th, 1920.
- B Wilson, Edwin (with Barrow, Wade, Guthrie & Co.)—25 Broad
 Street, New York, N.Y. February 26th, 1918.
 Wood, Edward Rogers—26 King Street East, Toronto, Ont. Jan-
 uary 26th, 1888.
- B Woodroffe, Edmund—9-10 Pancras Lane, London, E. C. 4, Eng-
 land. February 26th, 1903.
 *Young, John Henry—64 Wellington Street West, Toronto, Ont.
 June 21st, 1898. Fellow, June 19th, 1908.
 *Young, Ralph Edward (Ralph E. Young & Co.)—Times Build-
 ing, Toronto, Ont. July 9th, 1897. Fellow, June 17th,
 1909.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
MANITOBA

CHARTER

(Being Chapter 29 of the Revised Statutes of
Manitoba, 1913)

An Act Respecting "The Institute of Chartered
Accountants of Manitoba"

IS MAJESTY, by and with the advice and consent of the Legislative Assembly of Manitoba, enacts as follows :

1. This Act may be cited as "The Chartered Accountants' Act." 3 Geo. 5, c. 1, s. 1.

2. The association known by the name of "The Chartered Accountants' Association of Manitoba" is hereby continued under the name of "The Institute of Chartered Accountants' of Manitoba," and shall be deemed to be a body corporate and politic under such a name, and by that name shall have perpetual succession, and may sue and be sued in any court, and have and use a common seal, and be capable of making and receiving all deeds, conveyances, transfers, assignments and contracts necessary to carry out effectually the provisions of this Act and promote the objects and designs of the said Institute, and the said corporation (hereinafter called the Institute) shall, subject to the provisions of this section, be capable by its corporate name of taking, purchasing, holding, selling, mortgaging and disposing of any and all goods, chattels, lands, tenements and hereditaments, and any real and personal property whatsoever, and any interest therein, which may from time to time be necessary or convenient for the purposes of the Institute, but the Institute shall not engage in trade or deal in lands or any interest therein, but may apply moneys derived from fees, voluntary contributions or donations from members or others, towards the maintenance and objects of the Institute in such manner as the said Institute shall from time to time by By-law direct :

Provided always that the said Institute shall only have power to acquire and hold such real estate so far as the same shall be necessary for the purpose of the said Institute within Manitoba ;

Provided also that it shall be lawful for the said Institute to invest the funds of the said Institute in such investments as trustees are authorized to invest in under "The Manitoba Trustee Act." 3 Geo. 5, c. 1, s. 2.

3. Every person appearing as a member of the Chartered Accountants' Association of Manitoba on the list of members thereof, as of the fifteenth day of February, 1913, shall be a member of the said the Institute of Chartered Accountants of Manitoba. 3 Geo. 5, c. 1, s. 3.

4. The objects and powers of the Institute shall be to promote and increase, by all lawful means, the knowledge, skill and proficiency of its members in all things relating to the profession of a public accountant, and to that end to establish classes, lectures and examina-

tions, and prescribe such tests of competency, fitness and moral character as may be thought expedient to qualify for admission to membership, and to grant diplomas to such members enabling them to use the distinguishing letters "C.A." (Chartered Accountant) as a certificate of such membership. 3 Geo. 5, c. 1, s. 4.

5. The head office of the Institute shall be in the City of Winnipeg, in the Province of Manitoba, at the office of the Secretary for the time being, until such time as the Institute shall provide a permanent office. 3 Geo. 5, c. 1, s. 5.

6. The Institute by By-law may make one or more classes of membership and may prescribe the qualifications for and the rights of each of such classes.

(2) The Institute may also grant the designation of "F.C.A." (signifying "Fellow of the Chartered Accountants") to such members who are over the age of thirty years and have been continuously in practice for a period of at least five years, under such conditions as the Institute may by By-law provide. 3 Geo. 5, c. 1, s. 6.

7. The affairs and business of the Institute shall be managed by a Council consisting of not less than six and not more than twenty-one members, and the Council may by By-law provide that a part of such Council be elected for a term not exceeding two years. 3 Geo. 5, c. 1, s. 7.

8. An Annual Meeting shall be held for the election of members of the Council of the Institute, and for such other business as may be brought before such meeting, at such time and place, and under such regulations and after such notices as by the By-laws of the Institute shall be determined, and, in default of such election being held at the proper time the existing Council shall continue to act until their successors shall be duly appointed.

(2) Nominations of candidates for election to the Council must be in writing, signed by two members of the Institute, and must be lodged with the Secretary at least fourteen days before the date of the Annual Meeting.

(3) A voting paper containing the names, alphabetically arranged, of the persons nominated for election to the Council shall be sent by mail to each member in good standing at least ten days before the date of the Annual Meeting, and the Council shall be elected by means of such voting papers, whether the members voting be present or absent from the Annual Meeting.

(4) The Council may by By-law provide that practising members only shall be eligible for election to the Council, and may by determine who are practising members; provided that the Institute may in General Meeting pass such By-laws.

(5) All vacancies which may occur in the Council by death or otherwise, in the interval between two Annual Meetings, may be filled by the Council. 3 Geo. 5, c. 1, s. 8.

9. The Council shall elect from among its members a President and one or more Vice-Presidents, as may be provided by the By-laws. The office of President shall not be held by any one person for more than two years in succession.

(2) The Council shall appoint a Secretary and a Treasurer (the same person being eligible for both offices), who may or may not be members of the Institute.

(3) The Council may appoint such other officer or officers as may be provided by the By-laws. 3 Geo. 5, c. 1, s. 9.

10. The Council may make By-laws for the government of its members and the carrying on of its objects, and may from time to time repeal, amend or re-enact the same, but every such By-law, and every repeal, amendment or re-enactment thereof, unless in the meantime confirmed at a Special Meeting of the Institute called for that purpose, shall have force only until the next Annual Meeting of the Institute, and in default of confirmation thereat shall, at and from that time only, cease to have force; provided that the Institute in General Meeting may make, repeal, amend or re-enact By-laws for any of the purposes aforesaid. 3 Geo. 5, c. 1, s. 10.

11. The Institute may establish classes of students in accounts, and may make arrangements with any university or college in Manitoba for the attendance of students in accounts at such lectures or classes in such university or college as may come within the course of subjects provided by the rules, By-laws and regulations of the Institute, and may agree with any such university or college for the use of any library or museum or property belonging to or under the control of such University or college, and may enter into all arrangements necessary for that end upon such terms as may be agreed upon. 3 Geo. 5, c. 1, s. 11.

12. The Council may—

(a) Prescribe a curriculum of studies to be pursued by, and term of service of, the students;

(b) Determine as to the fitness, moral character and habits of persons applying to be examined;

(c) Prescribe the subjects upon which candidates for membership shall be examined.

(d) Fix standards of skill and competency;

(e) Establish a scale of fees to be paid by person applying for examination;

(f) Appoint examiners, define their duties and fix their remuneration, and

(g) Make such rules and regulations (not contrary to the provisions of this Act or the By-laws of the Institute) in respect to examinations as may be expedient. 3 Geo. 5, c. 1, s. 12.

13. The Council shall hold examinations at least once in each year. 3 Geo. 5, c. 1, s. 13.

14. Any person not under the age of twenty-one years who shall have satisfied the Council as to his fitness, moral character and habits, and as to his skill and competency, and who shall have passed the examination of the Institute and paid the fees fixed by By-law, shall be entitled to become a member of the Institute. 3 Geo. 5, c. 1, s. 14.

15. The Council shall by resolution prescribe the conditions upon which persons, who have passed the examinations of other corporate bodies having the same or similar objects, may be admitted as members of the Institute, and such conditions shall be reasonable and subject to amendment from time to time by the Lieutenant-Governor-in-Council, and if the Council omits to provide such conditions the Lieutenant-Governor-in-Council may prescribe the same. 3 Geo. 5, c. 1, s. 15.

16. The Council may fix an entrance fee and the annual fee or subscription to be paid by the various classes of members, and may vary the amounts thereof from time to time. 3 Geo. 5, c. 1, s. 16.

17. The Council may adopt a tariff of minimum fees which may be demanded by members of the Institute, and may amend the same, and, upon the approval thereof, by a two-thirds majority of the members present at a General or Special Meeting of the Institute, the Lieutenant-Governor-in-Council may direct that the said tariff shall be recoverable in law by a member of the Institute in any court of competent jurisdiction. 3 Geo. 5, c. 1, s. 17.

18. Persons who have rendered conspicuous services to the Institute, either in the advancement of its educational objects or its general welfare or by material contributions to the library of other funds of the Institute, may, by the unanimous vote of the members present at any meeting of the Institute, be elected to honorary membership of the Institute, but honorary membership shall not confer the right to use the designation "Chartered Accountant" or to be elected to the Council or to vote. 3 Geo. 5, c. 1, s. 18.

19. No member shall be personally liable for any debt of the Institute beyond the amount of his unpaid fees or subscription as aforesaid. 3, Geo. 5, c. 1, s. 19.

20. All interest in or claim against the funds and property of the Institute of any member shall absolutely cease and determine upon the death of such member, and shall also absolutely cease and determine upon any such member during his lifetime ceasing to be a member of the Institute. 3 Geo. 5, c. 1, s. 20

21. The Institute may by By-law provide for the suspension and expulsion, on complaint made in writing and after due enquiry into same, of any member for misconduct or violation of the rules or By-laws of the Institute, or who knowingly and wilfully issues or signs any false or misleading statement, audit or report, or give any false or misleading information in connection with any audit or examination of accounts. 3 Geo. 5, c. 1, s. 21.

22. No person shall be entitled to take or use the designation "Chartered Accountant" or the initials "F.C.A.," "A.C.A.," "C.A.A." or "C.A.," either alone or in combination with any other words, or any name, title or description implying that he is a Chartered Accountant, or any name, title, initials or descriptions implying that he is a certified accountant or an incorporated accountant, unless he is a member of the Institute in good standing and registered as such :

(a) Provided that any firm of Chartered Accountants whose head office is outside the Province of Manitoba, but which maintains an office and practice within the Province, shall be entitled to take and use the designation of "Chartered Accountants" and the initials "C.A.," and to practice as such, if any one member of such firm be a member of the Institute of Chartered Accountants of Manitoba; provided that, if the member of such firm who is a member of the Institute of Chartered Accountants of Manitoba should die or resign from such firm the said firm shall be entitled to continue the use of such designations, provided that another member of such firm becomes a member of the said Institute within six months of the death or resignation of such member. 3 Geo. 5, c. 1, s. 22.

23. Every person who contravenes any of the provisions of the last preceding section shall for every contravention incur a penalty of fifty dollars, and the penalty imposed by this Act may be recovered with full costs of prosecution on a summary conviction before any one

or more of His Majesty's justices of the peace in the municipality in which the offence is committed, except where it is otherwise provided. The procedure on such prosecution shall be in accordance with the provisions of "The Criminal Code," referred to in "The Manitoba Summary Convictions Act" and amendments thereto, and of such Acts and amendments. 3 Geo. 5, c. 1, s. 23.

24. The penalty imposed upon any such conviction shall be forthwith paid over to the Provincial Treasurer, to form part of the Consolidated Revenue of the Province, and, in case the said penalty and costs are not paid forthwith, the said justice may issue his warrant to commit the defendant to the common goal of the judicial district in which the offence was committed, there to be imprisoned for any term not exceeding two months, unless the penalty and costs are sooner paid. 3 Geo. 5, c. 1, s. 24.

25. The Council shall cause to be kept by the Secretary, or other officer appointed for the purpose, a book or register in which shall be entered in alphabetical order the names of all members in good standing, and those members only whose names are entered in the book or register aforesaid shall be deemed entitled to the privilege of membership in the Institute, and such book or register shall at all times be subject to inspection by any person free of charge.

(2) Such book or register, or copy of the same duly certified by the Secretary, shall be prima facie evidence in all courts and before all persons that the persons whose names are entered therein are members of the Institute in good standing, and the absence of the name of any person from such register shall be prima facie evidence that such person is not a member of the Institute. 3 Geo. 5, c. 1, s. 25.

26. Nothing in this Act shall affect or interfere with the right of any person, not a member of the Institute, to practise as an accountant in the Province of Manitoba, nor with the right of any person, not residing or having an office within this Province, to use any designation as accountant. 3 Geo. 5, c. 1, s. 26.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
MANITOBA

BY-LAWS

BY-LAW I.

Membership

1. Any person, not under twenty-one years of age, who shall be recommended by two members of the Institute and who either shall have passed the examinations of the University of Manitoba for admission or shall have satisfied the Committee on Membership and the Council as to his professional attainments, experience, moral character and habits, and who shall have paid the fees required by these By-Laws, shall be entitled to become a member of the Institute.

2. The membership of the Institute shall be divided into the following classes:

Class A—Members who are principals in a firm of Chartered Accountants or are in individual practice and who maintain an office or place within the Province of Manitoba at which their professional services may be engaged.

Class B—Members who are solely in the employment of Chartered Accountants.

Class C—Members who are non-resident in Manitoba and do not maintain an office or place within the Province of Manitoba at which their professional services may be engaged and resident members who are not solely in the employment of Chartered Accountants.

Class D—Honorary members.

3. Any member whose fees are not paid within three calendar months after the date when such fees have become due and payable, may be suspended by the Council from the privileges of membership. The payment of such fees may, with the consent of the Council, reinstate a suspended member.

4. Any member whose fees are not paid within three calendar months after the date when fees for the year next following have become due and payable shall have thereby terminated his membership, and the Secretary shall remove his name from the Register. Such persons may be readmitted upon such terms as the Council shall approve.

5. No member shall be eligible for office or entitled to vote if any fees or debts due by him to the Institute are three months in arrears.

6. Upon evidence satisfying it that any member has been convicted by a competent tribunal of any offence which, in the opinion of the Council, renders him unfit to be a member, the Council shall have the right by a majority of two-thirds of those present at a meeting thereof, to expel from the Institute such member, and his name shall be removed from the register.

7. Any member, provided he is not under liability to the Institute, shall be entitled to resign his membership on giving notice in writing

of his intention to do so, and on the surrender of his certificate of membership.

8. Every member, when elected, shall be granted a certificate of membership and shall, so long as he remains a member of the Institute, be entitled to retain the said certificate.

9. Every certificate issued to a member shall be in such form as the Council may from time to time determine, and shall be the property of the Institute and, in the event of cessation of membership, shall be surrendered to the Council, and shall be recoverable on demand unless the Council shall assent to its remaining in the possession of the member.

10. Members practising in partnership with persons who are not members shall not permit the partnership or the firm to be described as "Chartered Accountants," except as provided in the Act of Incorporation, section 22, sub-section (a). Any person named in connection with such partnership by advertisement or otherwise shall be deemed a partner for the purpose of this By-Law.

11. No member shall be a Director, Officer or member of any Corporation or of any Company operating under a non-personal title or name, which is engaged in the business of auditing or accounting within the Province of Manitoba, nor shall any member when, or as an employee or assistant of any such Company, do any work for others, in the nature of auditing or accounting or other work appertaining to the practice of a Chartered Accountant; provided that nothing herein contained shall prevent any member auditing or investigating the books or accounts of any such Company.

12. No member shall engage in any business, profession or employment, or adopt any form of advertising or method of procuring business, which, in the opinion of the Council, is objectionable in a member of this Institute.

13. No member shall be a partner in any firm of Chartered Accountants which maintains an office and practice within the Province unless such office and practice shall be and continue under the personal charge and managed by one of the members of such firm or under the personal charge of and managed by a member of this Institute.

14. No member practising as a Chartered Accountant alone and not as a member of a firm of Chartered Accountants shall maintain an office and practice within the Province unless such office and practice shall be and continue under his personal charge and management or under the personal charge and management of a member of this Institute.

15. It is provided, however, that a period of three months may be allowed a manager of an office and practice in the Province, after he assumes charge of the same, to secure admission to membership in this Institute, but the Council, at its discretion, may grant further extensions of time.

BY-LAW II.

Council

1. The Council shall consist of fourteen members from Class A and B as defined in By-Law I, section 2; ten at least of whom shall be elected from Class A, and not more than four from Class B, and they shall hold office for two years, seven retiring annually.

2. All members who are in good standing and whose place of residence is in the Province of Manitoba, shall be eligible for election to the Council, provided that not more than two members (Class A or Class B) from any firm or partnership shall be entitled to occupy places on the Council concurrently. In the event of more than two such representatives being elected only the two who shall have received the highest number of votes shall be declared elected.

3. Members of the Council duly elected shall retain office until the final termination or dissolution of the next general meeting of the Institute (including all adjournments thereof), at which election of members of the Council is held, and upon such final termination or dissolution shall, if their term of office has expired, unless re-elected, retire from office.

4. All acts done by any meeting of the Council, or by any member of the Council, or their agents, or any committee of Council, shall notwithstanding that it shall be afterwards discovered that there was some defect in the appointment of such Council, or agent, or that they or any of them, were not qualified at the time of their appointment, or had become disqualified, be as valid as if such Council, committee of Council, member of Council, or agent, had been duly appointed and was qualified to act.

5. Members of Council shall be responsible only for the acts which they themselves have joined in or done.

6. All records, books and papers, shall, at all reasonable times, be open to the inspection of members of the Council.

7. A member of the Council may, at any time, give notice in writing to the Council of his wish to resign, and on the acceptance of his resignation by the Council, but not before, his office shall be vacant.

8. The office of a member of the Council is vacated :

(a) If he ceases to be a member of the Institute, or be excluded or suspended for any period from membership.

(b) If he is absent from the meetings of the Council for more than three consecutive months without the consent of the Council.

9. Vacancies which may occur in the Council by death or otherwise between two Annual Meetings may be filled by the Council from the particular class of membership (Classes A or B) from which the retiring member had been elected, and subject to the limitations of By-Law II., section 2.

BY-LAW III.

Election of Council

1. The Secretary shall, at least thirty (30) days prior to the Annual Meeting, notify all members, except those of Class D, that nominations for the Council, as provided under By-Law II., section 2, will be received by him up to fourteen (14) days before the Annual Meeting.

2. At each Annual Meeting every retiring member of the Council shall be deemed to be nominated for election unless he shall have notified the Secretary of his desire not to offer himself for re-election, such notice to be given not less than twenty (20) days before the Annual Meeting.

3. As regards any other candidate or candidates to be nominated for election on the Council at an Annual Meeting, previous notice of each such nomination in writing, signed by two members, must be delivered at the Secretary's office not less than fourteen (14) days before the Annual Meeting. If the requisite number of members be not elected on the Council at an Annual Meeting, the vacancies may be filled by the Council.

4. In the event of there being more nominations than seven, the Secretary shall prepare and mail to each member in good standing, other than those of Class D, a voting paper containing the names alphabetically arranged of those nominated for Council, at least ten (10) days before the date of the Annual Meeting, and the Council shall be elected by means of such voting papers, whether the members voting be present at, or absent from the Annual Meeting. Such voting paper shall indicate beside each name whether the candidate is a Class A or B member—and such voting paper shall also contain a footnote stating that not more than four members of Class B can be elected.

5. Each voting paper shall be marked for not less than nor more than seven members. Any voting paper marked for less than or more than seven members shall not be considered in counting the votes.

6. At the Annual Meeting three Scrutineers shall be elected, who shall count the voting papers handed to them by the Secretary, prepare a certified alphabetical list of those elected and return the same to the Secretary who shall declare the result of the voting. The voting papers after being counted shall be placed in a sealed package and handed to the Secretary, who shall destroy them.

7. In the event of a tie between any two or more nominees necessary to complete the membership of Council, the member or members elected shall be decided from amongst such names by a drawing to be conducted under the supervision of the Secretary.

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BY-LAW IV.

Meetings of Council

1. Meetings of the Council shall be held monthly on the second Monday in each month, at such time and place as the President shall determine. At least three days' notice shall be given of all meetings of the Council.

2. Members of the Council non-resident in Winnipeg shall be paid by the Institute their actual expenses in going to and returning from said meeting.

3. The Council may determine the quorum necessary for the transaction of business, which shall not be less than six members.

4. The order of procedure at meetings of the Council shall be as follows :

- (a) Reading, correcting and confirming minutes.
- (b) Reading and considering correspondence.
- (c) Reading and considering reports of Committees.
- (d) Passing Accounts.
- (e) General Business.

5. The minutes of any meeting of the Council, when signed by the Chairman at a following meeting shall, in the absence of fraud, be taken as conclusive evidence of the transactions recorded therein.

BY-LAW V.

Meetings of Members

1. The Annual Meeting of the Institute shall be held during the last seven days in June of each year on such date and at such time and place as the Council may determine.

2. Special Meetings of the Institute may be called by order of the Council when deemed expedient.

3. Special Meetings of the Institute shall be called by the President after the receipt of a requisition signed by not less than ten (10) members.

4. Meetings of the Institute for social intercourse, the reading of papers and the discussion of questions of interest to the profession, may be held whenever the President or the Council shall deem expedient.

5. Notices of Annual and Special Meetings shall be given in accordance with By-Law VII., section 5, except meetings called under section 2 of this By-Law, in which case at least five (5) clear days' notice in writing will be sufficient if sent to members as required by By-Law VII., section 5.

6. At each Annual or Special Meeting no business shall be transacted unless there is a quorum present, such quorum to consist of twenty members in the case of meetings called under By-Law V., section 3, and in all other cases to consist of twelve members. If, within half an hour after the time appointed for such meeting, a quorum is not present, the meeting, if convened under By-Law V., section 3, shall be dissolved. In any other case, it shall stand adjourned to the same day in the next week, and at the same hour and place, and if at such adjourned meeting, a quorum is not present, those members who are present shall form a quorum and shall proceed to the business for which the meeting was called.

7. Meetings of the Institute may be adjourned from time to time by resolution of a majority of the members present entitled to vote and voting; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

8. The Secretary shall on the business day next following that on which a meeting has been adjourned notify all members of the date, place and hour to which the adjournment has been made.

9. The order of procedure at the Annual Meeting shall be as follows:

(a) Reading notice calling meeting and Secretary's certificate as to mailing of notices.

(b) Reading, correcting and confirming minutes.

(c) Election of scrutineers.

(d) Report of Council.

(e) Financial Report.

3. As regards any other candidate or candidates to be nominated for election on the Council at an Annual Meeting, previous notice of each such nomination in writing, signed by two members, must be delivered at the Secretary's office not less than fourteen (14) days before the Annual Meeting. If the requisite number of members be not elected on the Council at an Annual Meeting, the vacancies may be filled by the Council.

4. In the event of there being more nominations than seven, the Secretary shall prepare and mail to each member in good standing, other than those of Class D, a voting paper containing the names alphabetically arranged of those nominated for Council, at least ten (10) days before the date of the Annual Meeting, and the Council shall be elected by means of such voting papers, whether the members voting be present at, or absent from the Annual Meeting. Such voting paper shall indicate beside each name whether the candidate is a Class A or B member—and such voting paper shall also contain a footnote stating that not more than four members of Class B can be elected.

5. Each voting paper shall be marked for not less than nor more than seven members. Any voting paper marked for less than or more than seven members shall not be considered in counting the votes.

6. At the Annual Meeting three Scrutineers shall be elected, who shall count the voting papers handed to them by the Secretary, prepare a certified alphabetical list of those elected and return the same to the Secretary who shall declare the result of the voting. The voting papers after being counted shall be placed in a sealed package and handed to the Secretary, who shall destroy them.

7. In the event of a tie between any two or more nominees necessary to complete the membership of Council, the member or members elected shall be decided from amongst such names by a drawing to be conducted under the supervision of the Secretary. In the event of a tie between any two or more nominees necessary to complete the membership of Council, the member or members elected shall be decided from amongst such names by a drawing to be conducted under the supervision of the Secretary.

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7. Meetings of the Institute may be adjourned from time to time by resolution of a majority of the members present entitled to vote and voting; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

8. The Secretary shall on the business day next following that on which a meeting has been adjourned notify all members of the date, place and hour to which the adjournment has been made.

9. The order of procedure at the Annual Meeting shall be as follows:

(a) Reading notice calling meeting and Secretary's certificate as to mailing of notices.

(b) Reading, correcting and confirming minutes.

(c) Election of scrutineers.

(d) Report of Council.

(e) Financial Report.

(f) General Business ; which shall consist of correspondence and of business brought forward by the Council, or any member, provided such member has given at least thirty (30) days' notice to the Council of his intention by leaving a copy of the resolution or notice of the proposed business at the office of the Secretary, who shall lay the same before the Council prior to the meeting.

(g) Reports of scrutineers.

(h) Election of auditor.

10. The proceedings at all meetings shall be governed by the rules laid down in Bourinot's Procedure, except as the By-Laws otherwise provide.

11. At any meeting of the Institute two members may require that the voting upon any question shall be by ballot, and the Chairman shall thereupon appoint two scrutineers for the purpose of taking the vote, and shall direct as to the form of voting paper.

12. No objection shall be made to the validity of any vote except at the meeting or poll at which such vote shall be tendered, and every vote not disallowed at such meeting or poll shall be deemed valid. The Chairman of the meeting shall be the sole and absolute judge of the validity of every vote tendered at any meeting or poll.

13. At any meeting of the Institute every member present and in good standing, other than Class D members, shall have a vote.

14. Every entry in the Minute Book of the proceedings of General or Special Meetings purporting to be entered and signed according to the Act of Incorporation, or these present shall, in the absence of proof to the contrary, be deemed to be a correct record and an original proceeding of the Institute accordingly ; and in every case the burden of proof of error shall be wholly on the person making objection to the entry.

BY-LAW VI.

Officers

1. The members elected to the Council shall immediately after the Annual Meeting terminates, meet for the purpose of electing a President and a Vice-President from amongst themselves and appointing a Secretary, Treasurer and Registrar (the same person being eligible for the three last mentioned offices), and the members of the Council then actually present at such meeting shall be a quorum for the purpose of such meeting and election.

2. At the Annual Meeting in each year, a member of the Institute, other than a member of the Council, shall be elected Auditor for the ensuing year.

3. Librarian, not necessarily a member of the Institute, may be appointed by the Council.

4. The Secretary, Treasurer and Registrar shall receive such remuneration as the Council shall from time to time determine.

BY-LAW VII.

Duties of Officers

1. The President shall preside and preserve order at all meetings of the Institute and Council. In his absence the Vice-President

shall exercise the office of President. In the absence of the President and the Vice-President, a Chairman shall be elected by a majority of those present entitled to vote and voting.

2. The presiding officer shall put all motions to the meeting and declare the same carried or not, as the case may be. He shall have the right of voting as if not in the chair, and if there is an equality of votes, he shall declare the motion lost.

3. The Secretary shall at all times be under the jurisdiction of the Council and shall conduct all the correspondence of the Institute and Council, attend all their meetings, keep a correct record of all their proceedings, keep a register of the members and the addresses, and see that the applications for admission and the recommendations, etc., accompanying the same are in the form prescribed, and that all the notices required by these presents are duly sent to the members of the Institute and Council. The Secretary shall also receive payments for entrance fees and subscriptions, and shall pay to the Banker of the Institute all moneys that may come into his hands and shall keep correct accounts and be responsible for such other duties as the Council may from time to time impose.

4. The Secretary, shall, not less than fifteen (15) days before the day fixed for the holding of each Annual Meeting of the Institute, deliver to the Auditor a full statement of the income and expenditures of the Institute for the year ending the thirty-first day of May last proceeding, together with a balance sheet setting forth the financial position of the Institute on such date; and the Auditor shall examine into the matter and figures therein stated and report thereon in writing and such report shall be delivered to the Secretary by the Auditor within three (3) days after receiving such statement and balance sheet, and shall be read, together with the statement and balance sheet, at the Annual Meeting.

5. The Secretary shall mail to each member at his registered address, not less than ten (10) nor more than twenty (20) days previous to each meeting of the Institute, notices giving the day, place and hour of meeting. In the case of an Annual Meeting, a copy of the Annual Report and audited Statement of accounts and any motion of which notice has been given as provided in By-Law V., section 9 (f) shall be enclosed with the notice of meeting. In the case of special meetings the notice shall state the purpose for which such meeting is called. The non-receipt of such notice by any member shall not invalidate the proceedings at any meeting.

6. All notices to be given to the members of the Institute shall be deemed to have been given if mailed prepaid in the Winnipeg Post Office, addressed to the member at the last address given by him to the Institute, and if no address shall have been given then the member's address shall be deemed to be Winnipeg, and such notice shall be addressed to the member at Winnipeg, and a certificate under the hand of the Secretary shall be conclusive evidence of the mailing of such notice.

7. In the event of the appointment of separate persons to the offices of Secretary, Treasurer and Registrar, their respective duties shall be defined from time to time by a resolution of the Council.

BY-LAW VIII.

Committees

1. The Council shall, at its first meeting after the election of officers, appoint the following Standing Committees for the purpose of facilitating business, viz :

- (a) Committee on Applications for Examination.
- (b) Committee on Membership.
- (c) Committee on Finance.
- (d) Committee on Legislation and Research.

Committees A, B and C shall consist of members of the Council and Committee D may be appointed partly from the Council and partly from other members of the Institute.

All matters appertaining to each of the above named Committees shall be referred to them for enquiry, study and report.

2. It shall be the duty of the Committee on Applications for Examination to receive and deal with all applications for registration of students and applications for, or relating to examination; to make full enquiry into the moral and educational fitness of all applicants, and to report on same to the Council with their recommendations.

3. It shall be the duty of the Committee on Membership to receive and deal with all applications for membership from qualified persons wishing to affiliate with this Institute; to make all necessary enquiry with respect to the moral fitness of each, and the sufficiency and bona fides of their qualifications, and to report on same to the Council with their recommendations.

Complaints against the professional or moral conduct of any members shall be submitted to this Committee for preliminary consideration and report to the Council.

4. It shall be the duty of the Committee on Finance to consider all financial problems that may present themselves from time to time with respect to Institute finances, investments, etc.

5. It shall be the duty of the Committee on Legislation and Research to watch and study all Dominion, Provincial and Municipal Legislation that may be proposed from time to time; the effect of which might, directly or indirectly have a bearing on the profession or the relations of Chartered Accountants to the business community; and generally to make such research into all matters referred to it by the Council which effect the profession.

6. The Council may appoint such other Committees from time to time as circumstances require.

7. Should any matter arise between two meetings of the Council affecting the interests of the Institute or the profession that, in the opinion of the President, requires immediate consideration, but does not come within the jurisdiction of the Standing Committees of the Council, he shall have power to appoint a special Committee of not less than three members, of which he shall be Chairman, to investigate such matter. The President shall report to the Council at the first meeting after said Committee has been appointed, his reasons for nominating the Committee and what action, if any, the Committee has taken, and the Council may continue the Committee or deal with the matter in any way that it may deem best in the interests of the Institute or the profession.

8. The Council may fix the number and quorum of each of the above named Committees, but in the absence of anything to the contrary, a majority shall be a quorum of any Committee.

9. The first meeting of each Committee shall be convened by the Secretary, at which meeting a Chairman shall be appointed. Subsequent meetings shall be called by the Chairman. Each Committee shall report to the meeting of the Council next following that from which the reference was made.

10. The President and Vice-President shall be ex-officio members of all Committees.

BY-LAW IX.

Institute Funds

1. All moneys received shall be immediately deposited in a Chartered Bank to be selected by the Council, and withdrawals therefrom shall be made as the Council may direct, and all cheques shall be signed by the Treasurer and countersigned by the President or Vice-President.

2. The funds of the Institute shall be applied first in defraying the current expenses of the Institute, then all moneys not immediately required therefor may be invested in such securities, for the time being authorized by the Manitoba Trustees Act, as shall be directed by the Council. The Council may from time to time realize or vary such investments.

3. The Council may employ any part of the funds of the Institute in the provision of prizes, medals or scholarships in connection with the subjects of the examinations held for the Institute.

4. The Council may, with the sanction of the members at any Annual or Special Meeting, borrow money on such terms as may be authorized thereat, and secure the same by way of mortgage or otherwise, and pay interest thereon.

5. The Council may act as treasurer and distributor of such benevolent or other special funds as may be contributed by the members and others, and may contribute thereto out of the funds of the Institute.

6. The Council may employ any part of the funds of the Institute in the leasing, holding or rental or disposal of any building or hall to be used as places of meeting, college, lecture or reading rooms, library and offices for the members of the Institute, and in fitting up and maintenance thereof; and the Council may, with the approval of the members at any general meeting, after due notice of such object, apply any part of the funds of the Institute in the purchase of any building or site and in the erection of any building thereon.

7. The Council may from time to time appoint any three or more members of the Institute in good standing, or a Trust Company, to act as trustee of any property belonging to or under the control of the Institute.

BY-LAW X.

Students-in-Accounts

1. Any person not under eighteen years of age, being employed as a clerk to a practising Chartered Accountant, may apply to the

Council to be registered as a Student-in-Accounts. Every such applicant shall furnish evidence in such form as the Council may direct, as to his age, occupation and character.

2. A registered student shall not be entitled by reason of such registration alone to exemption from any requirements as to age, character, experience or educational qualification that would otherwise be applicable to his case, as an applicant for examination.

3. Registered students may form a society for the better advancement of their studies and professional knowledge, and for the purpose of making recommendations affecting their joint interests for the consideration of the Council but all rules or regulations or acts of self-government of such society shall only have force or effect when the same shall have been approved by the Council, and shall be subject to revision and amendment as the Council may see fit.

4. Registered students shall be subject to the rules and regulations passed by the Council from time to time under By-Law XI, section 3.

BY-LAW XI.

Examinations

1. Examinations to be designated the Intermediate and Final Examinations shall be held at least once in each year by the University of Manitoba, as provided in the Agreement between the University and the Institute dated the twelfth day of October, 1917.

2. These examinations shall be held on such dates as may be agreed upon between the Council and the University.

3. The Council shall make, alter, amend or revoke such rules and regulations with regard to examinations as are not inconsistent with the Institute's agreement with the University, as may from time to time seem expedient or necessary and such rules and regulations for the time being shall be read with and form part of this By-Law.

4. Every candidate whom the Council shall refer to the University for examination, shall, before such examination takes place, pay to the Registrar of the University fees fixed by the University for such examination.

5. Every candidate applying to the Council for permission to write on the Final Examination shall deposit with the application an entrance fee of fifty dollars, which shall be refunded in the event of his failing to pass.

BY-LAW XII.

Registered Societies

1. Any Chartered or Incorporated Institute or Society which shall satisfy the Council that its standards of examination and conditions of membership conform to the standards of examination and conditions of membership in this Institute, shall be entitled to be registered accordingly, and shall be designated a "Registered Society."

2. A member in good standing of a Registered Society may be exempted from examination and admitted a member of the Institute, as provided for in the rules and regulations respecting examinations incorporated with By-Law XI, section 3.

BY-LAW XIII.

Fees

1. Every person eligible for admission to Class A shall, before being admitted a member, pay an entrance fee of Seventy-five (\$75) Dollars; and every person eligible for admission to Class B or Class C shall, before being admitted a member, pay an entrance fee of Fifty Dollars (\$50). Every person admitted to membership without examination shall pay a further fee of Ten Dollars (\$10) for exemption from examination.

2. Every member of the Institute shall on the first day of June in each year pay the following fee for the twelve months then ensuing :

Class A members	\$25.00
Class B members	15.00
Class C members	10.00

3. Any member admitted after the first day of December in any year shall pay only one-half of the annual fee for that year.

4. Any member transferring from Class B or Class C to Class A shall, before commencing practice, pay an additional fee of Twenty-Five Dollars (\$25).

BY-LAW XIV.

Complaints and Investigations

1. For the purpose of inquiring into complaints made against any member under section 21 of The Chartered Accountants' Act there is hereby appointed a Committee, which Committee shall not exceed five in number, of whom a quorum shall not be less than three, which Committee shall be chosen by the Council from among all members of the Institute in good standing, whether members of the Council or not, and such Committee may be appointed by the Council at any meeting of the Council and may be changed from time to time, and it shall be the duty of such Committee to make due enquiry into any complaint made in writing to the Institute, or to the Council, or to such Committee, of misconduct or violation of the rules or By-Laws of the Institute by any member, or that any member has knowingly and wilfully issued any false or misleading statement, audit or report, or has given any false or misleading information in connection with any audit or examination of accounts. At least one week before the first meeting of the Committee to be held for such inquiry, a notice in writing shall be served upon or mailed to the person whose conduct is to be the subject of inquiry, and such notice shall embody a copy of the complaint made against him or the particulars thereof, and shall specify the time and place of such meeting, and such notice shall be sufficiently given if mailed at His Majesty's Post Office in Winnipeg, postage prepaid, at least one week before such first meeting addressed to such person at his last known address appearing in the register of members of the Institute, and like notice shall be given to the person complaining; and on such inquiry, the evidence shall be taken and the inquiry made in such manner as shall be directed by the Chairman of and a full opportunity shall be given to the members as to whom such complaint is made, of being heard, and of producing evidence on his own behalf, and in the event of the non-attendance of such member, upon proof to the satisfaction of the meeting of ser-

vice of notice upon him as aforesaid, the Committee may proceed with the enquiry in his absence and may deal with the complaint without any further notice to him, and upon such Committee completing such inquiry, it shall report to the Council in writing, and if the complaint is sustained, then the member so complained of may be suspended or expelled as the Council shall see fit, at any meeting of the Council of which ten days' notice in writing shall have been given to all members of the Council; provided, however, that no member shall be expelled from membership except by a resolution to that effect carried by a vote of at least three-fourths of the members of the Council present at the meeting when the decision of the Council upon such complaint is being arrived at, entitled to vote and voting for or against such resolution.

2. Upon it being made to appear subsequently that for want of sufficient information, or for other reasonable cause, the finding of the Committee upon any complaint under section 21 of the said Act, or the action of the Council upon such finding was unjust or inequitable, the Council may at any meeting, of which ten days' notice in writing shall have been given to all members of the Council, by a resolution to that effect, make further investigation into such complaint, or refer the same to the said Committee for further inquiry, to be held as provided in By-Law XIV., section 1, and after such investigation by the Council, or after receipt of the report of the Committee, the Council may at any meeting of the Council of which ten days' notice in writing shall have been given to all members of the Council, confirm, modify, or rescind their previous resolution or action as shall seem just; provided, however, that no resolution for expulsion from membership shall be modified or rescinded except by a resolution of the Council in favor thereof, carried by a vote of at least three-fourths of the members of the Council present at such meeting entitled to vote and voting for or against such resolution.

3. Charges against a member or a student of an infraction of a By-Law or rule may be investigated summarily at any meeting of the Council, of which the member or student charged shall be given one week's notice. If the charges be sustained, the offender may be dealt with as the Council shall see fit.

4. Notices under the three last preceding sections excepting notices to members of the Council, shall be served personally or sent by registered letter, as the Council shall direct.

5. The Council shall not be bound to take notice of any article or communication which may appear in the public prints or which may be addressed to any member or other person individually, or of any verbal statement, affecting the conduct of a member or student.

BY-LAW XV.

Miscellaneous

1. There shall be elected annually the number of representatives the Institute is entitled to on the Council of the Dominion Association of Chartered Accountants provided in By-Law No. 7 of the said association.

2. The Council may, from time to time, accept donations, purchase books, reports, statistics, papers, appliances and other things of interest to the profession, to form a library for the use of the members, and pay for those purchased out of the funds of the Institute, and make rules and regulations respecting the custody of the same.

3. The forms set forth in the schedule to these By-Laws shall be used in cases to which they are applicable and with such alterations, if any, as the Council may from time to time determine; and all notes, notations and directions thereon shall be deemed to be part of the forms.

4. In the event of any dispute as to the intent or meaning of any of these By-Laws or of any By-Law which may hereafter be made, the interpretation by the Council shall be final and conclusive, but an appeal from their decision may be made to the members at a Special Meeting called for the purpose.

5. The seal impressed on these By-Laws shall be the seal of the Institute. It shall not be affixed to any document other than certificates of membership except by resolution of the Council, and every such document shall be signed by the President or Vice-President and Secretary in whose presence the seal shall be affixed.

6. The introduction or discussion of political or religious subjects shall not be permitted at any meeting of the Council or Institute.

7. All members of the Institute shall be notified by the Secretary of any repeal, amendment or addition to these By-Laws made either by the Council or at a Special or General Meeting of the Institute.

8. All former By-Laws of this Institute are hereby repealed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF MANITOBA

Officers

1921-22

President—Reade, Hubert T., 407-408 Montreal Trust Building, Winnipeg.

Vice-President—Glendinning, Wm. D., 601 Merchants Bank Building, Winnipeg.

Secretary, Pro, tem—Sanburn, W. G., 711 Notre Dame Investment Building, Winnipeg.

Auditor—Macdonald, Hamish, 601 Merchants Bank Building, Winnipeg.

Members of Council

Brown, S. G.
Drennan, Keith W.
Ligertwood, J. C. M.
Parton, John
Phillips, Arthur E.
Reid, John D.
Whyte, David Croom

Gilbert, F. C.
Glendinning, Wm. D.
Gray, Wm.
Henderson, W. A.
Reade, Hubert, T.
Turner, F. C. S.
Young, David

Representatives to Dominion Council

Gilbert, Fred, C.

Reade, Hubert, T.
Glendinning, Wm. D.

THE INSTITUTE OF CHARTERED ACCOUNTANTS
OF MANITOBA

NAMES, ADDRESSES AND DATES
OF ADMISSION OF MEMBERS
OF THE INSTITUTE

† Honorary Member

- Aitken, William (with John Scott & Co.)—200 Belgica Block, Winnipeg. December, 1920.
- Anderson, Joseph Stewart (with George A. Touche & Co.)—1532 Bank of Hamilton Bldg., Toronto, Ont. June, 1914.
- Anderson Thomas—141 Sherbrooke St., Winnipeg October, 1912.
- Armstrong, Adam (Armstrong, Ashley, Palmason & Co.)—808 Confederation Life Bldg., Winnipeg. July, 1912.
- Ashley, Aubrey Victor (Armstrong, Ashley, Palmason & Co.)—808 Confederation Life Bldg., Winnipeg. June, 1915.
- Baker, Robert Jemmerson—145 Scott Street, Winnipeg. October, 1914.
- Bell, Joseph—16 Chepstow Place, London, W2. July, 1909.
- Boyle, Alexander Robert Mills (with Touche, Niven & Co.)—42 Broadway, New York. January, 1918.
- Brodie, Alexander Bertram (Price, Waterhouse & Co.)—Commercial Union Bldg., Montreal, Que. February, 1913.
- Brown, Samuel George (Marwick, Mitchell & Co.)—201-204 Huron & Erie Bldg., Winnipeg. June, 1914.
- Campbell, Roy William—Box 125 R. R. No. 1, Falls Church, Va. June, 1916.
- Campbell, Samuel Ross (P. S. Ross & Sons)—142 Notre Dame St. W., Montreal, Que. July, 1907.
- Chaplin, Edward Villiers (with Marwick, Mitchell & Co.)—1122 Standard Bank Bldg., Vancouver, B.C. June, 1916.
- Chidwick, Charles Robert (with Geo. A. Touche & Co.)—707 McArthur Bldg., Winnipeg. November, 1919.
- Clerke, Alfred Stuart (c/o M. J. O'Brien, Limited)—511 Union Bank Bldg., Ottawa, Ont. June, 1916.
- Cole, Alfred William (Harvey, Richardson, Cole & Robertson)—516-517 P. Burns Bldg., Calgary, Alta. August, 1916.
- Cooper, David (David Cooper & Co.)—301 Enderton Bldg., Winnipeg. July, 1909.
- Corbould, Charles Durie—592 McMillan Ave., Winnipeg. June, 1906.
- Cordner, John James (W. A. Henderson & Co.)—503-9 Electric Railway Chambers, Winnipeg. ———, 1919.
- Craggs, George Somerville (with John Craggs & Co.)—3 London Wall Bldg., London, E.C.2. February, 1913.
- †Crossin, Albert Livingstone (c/o Oldfield, Kirby & Gardner)—234 Portage Ave., Winnipeg. June, 1906. (Hon., June, 1917).
- Dewar, Douglas (Marwick, Mitchell & Co.)—79 Wall St., New York. April, 1913.
- Donovan, Maurice S. (with Riddell, Stead, Graham & Hutchison)—601 Merchants Bank Bldg., Winnipeg. November, 1919.
- Drennan, Keith Wallace (John Scott & Co.)—200 Belgica Block, Winnipeg. October, 1913.
- Dunwoody, James M.—138 Emerson St., Winnipeg. June, 1914.
- Edwards, George (Edwards, Morgan & Co.)—10 Adelaide St. East, Toronto, Ont. June, 1903.

- Fanshaw, Alexander John James (with George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. April, 1913.
- Fleming, Henry Hamilton (H. Hamilton Fleming & Co.)—305 Builders' Exchange, Winnipeg. February, 1919.
- Gabriel, Charles Felix (with Ronald, Griggs & Co.)—804-5 Lindsay Bldg., Winnipeg. June, 1916.
- Galbraith, Bertram Collis (with John Scott & Co.)—200 Belgica Block, Winnipeg. May, 1920.
- Garratt, Percy (Marwick, Mitchell & Co.)—11 Ironmonger Lane, London, E.C., England. May, 1920.
- Gibb, Andrew Wiseman—Dominion Taxation Office, Tribune Bldg., Winnipeg. June, 1916.
- Gibbs, Philip Archibald (with Hubert Reade & Co.)—407-8 Montreal Trust Bldg., Winnipeg. December, 1920.
- Gilbert, Frederick Charles (Gilbert & Laird)—305 Electric Railway Chambers, Winnipeg. February, 1912.
- Giles, Robert William (with Smith, Robertson & Co.)—Henry Bldg., Seattle, Wash. June, 1918.
- Glendinning, William Dempster (Riddell, Stead, Graham & Hutchison)—601 Merchants Bank Bldg., Winnipeg. December, 1912.
- Goodman, Geoffrey Henry (with Price, Waterhouse & Co.)—1105 Union Trust Bldg., Winnipeg.
- Grant, James (F. C. S. Turner & Co.)—502 Trust and Loan Bldg., Winnipeg. March, 1913.
- Grant, William Ross (with Riddell, Stead, Graham & Hutchison)—601 Merchants Bank Bldg., Winnipeg. January, 1918.
- Gray, William (William Gray & Co.)—1107 McArthur Bldg., Winnipeg. December, 1912.
- Griggs, Benjamin Frank—406 Notre Dame Investment Building, Winnipeg. July, 1911.
- Halsey, Lawrence Edward (Price, Waterhouse & Co.)—3 Frederick's Place, Old Jewry, London, E.C., England. February, 1913.
- Hayward, Robert H.—14-15 Monadnock Block, Winnipeg. February, 1886.
- Hegan, Charles Robert—24 Coleman Street, London, E. C. 2, England. June, 1906.
- Henderson, William Alexander (W. A. Henderson & Co.)—508-9 Electric Railway Chambers, Winnipeg. February, 1886.
- Hollands, William Waters—338 Redwood Ave., Winnipeg. June, 1913.
- House Moorgate St., London, E.C., England. June, 1914.
- Moorgate St., London, E.C., England. June, 1914.
- Hopkinson, Joseph—(c/o Merchants Consolidated, Ltd.)—110 Princess St., Winnipeg. July, 1912.
- Horne, Alexander (with John Scott & Co.)—200 Belgica Block, Winnipeg. May, 1920.
- Howat, Hugh—Lindsay Bldg., Winnipeg. June, 1910.
- Hudson, Oscar Murray (Oscar Hudson & Co.)—32 Church St., Toronto, Ont. August, 1913.
- Hutton, David R.—(with Marwick, Mitchell & Co.)—714 Herald Bldg., Calgary, Alta. November, 1913.
- Jex, William Raymond—(Jex, Mackintosh & Murray)—307 McIntyre Block, Winnipeg. February, 1915.
- Jones, Basil—11016, 88th Ave., Edmonton, Alta. July 1912.
- †Joplin, J. Porter (Walton, Joplin, Langer & Co.)—122 South Michigan Boulevard, Chicago, Ill. January, 1914.
- Laing, George Stanley—805 Union Trust Bldg., Winnipeg. June, 1910.
- Laird, William Charles (Gilbert & Laird)—305 Electric Railway Chambers, Winnipeg. June, 1918.

- Lampman, Ralph Wesley (c/o National Trust Co.)—Main St. and Notre Dame Ave. East, Winnipeg. June, 1910.
- Lofthouse, David Sinclair (with George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. November, 1919.
- Ligertwood, John Charles Murray (with Marwick, Mitchell & Co.)—201-204 Huron & Erie Bldg., Winnipeg. June, 1915.
- Loos, George—176 Marion Ave., Norwood, Man. February, 1916.
- Love, William Donald (F. C. S. Turner & Co.)—502 Trust & Loan Bldg., Winnipeg. June, 1908.
- Macdonald, H. R.—601 Merchants Bank Bldg., Winnipeg.
- Macdonald, Walter James (Millar, Macdonald & Co.)—Home Bank Bldg., 428 Main St., Winnipeg. June, 1915.
- Macdonnell, Richard Charles—37 Clement Block, Brandon, Man. July 1912.
- Mackintosh, Colin Percy (Jex, Mackintosh & Murray)—307 McIntyre Block, Winnipeg. July, 1916.
- Marwick, James (Marwick, Mitchell & Co.)—79 Wall St., New York, N.Y. February, 1913.
- McDougall, Howard John—123 Hamilton St., St. John Nfld. June 1916.
- Millar, James Culross (Millar, Macdonald & Co.)—Home Bank Bldg., 428 Main St., Winnipeg. December, 1916.
- Mitchell, Simpson Roger (Marwick, Mitchell & Co.)—79 Wall St., New York. February, 1919.
- Morden, Harold James (Oscar Hudson & Co.)—215 Curry Bldg., Winnipeg. June, 1918.
- Mouat, Alexander Naismith—Comptroller General, British Columbia, Victoria, B.C. June, 1903.
- Murray, David Alexander Bruce, Jr. (Jex Mackintosh & Murray)—307 McIntyre Block, Winnipeg. June, 1919.
- Nairn, John Lennox—111 Broadway, New York. June, 1915.
- Nairn, Kenneth Gordon (with John Scott & Co.)—200 Belgica Block, Winnipeg. May, 1920.
- Palmason, Hannes John Harold (Armstrong, Ashley, Palmason & Co.)—808 Confederation Life Bldg., Winnipeg. August, 1918.
- Parkin, T. Cresswell—36 Bank St., Sheffield, England. August, 1913.
- Parton, John (George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. July, 1909.
- Peat, Sir William Barclay (Marwick, Mitchell, Peat & Co.)—11 Ironmonger Lane, London, E.C., England. February, 1913.
- Pender, D. A. (D. A. Pender, Siasor & Co.)—805 Confederation Life Bldg., Winnipeg. June, 1905.
- Phillips, Arthur Edward (Phillips, Roberts & Co.)—508-9 Electric Railway Chambers, Winnipeg. July, 1912.
- Rankin, Ewen (Stirling, Rankin, Saul & Co.)—349-357 Grain Exchange, Winnipeg. October, 1912.
- Rathjen, Thomas Henry (with George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. June, 1919.
- Read, Edward Somerville (George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. October, 1912.
- Reade, Hubert Thomas (Hubert Reade & Co.)—407-408 Montreal Trust Bldg., Winnipeg. June, 1906.
- Reid, John Davidson (John D. Reid & Co.)—1107 McArthur Bldg., Winnipeg. July, 1911.
- Roberts, Richard Alun (Phillips, Roberts & Co.)—508-9 Electric Railway Chambers, Winnipeg. May, 1917.
- Roberts, Sydney V.—2237 Bowker Ave., Oak Bay, Victoria B. C.
- Robinson, Malcolm H. (George A. Touche & Co.)—Lewis Building, Montreal, Que. August, 1913.

- ilton Bldg., Toronto, Ont. August, 1913.
- Ronald, William Sidney (Ronald, Griggs & Co.)—804-5 Lindsay Bldg., Winnipeg. September, 1903.
- Rowbotham, Geoffrey Guthrie (with Price, Waterhouse & Co.)—145 St James Street, Montreal, Que. June, 1915.
- Bank Bldg., Toronto, Ont. June, 1915.
- Saint Clair, Roland—4227 Berkeley Avenue, Chicago, Ill. November 1915.
- Sanburn, William George (W. G. Sanburn & Co.)—711 Notre Dame Investment Bldg., Winnipeg. June, 1914.
- Saul, Thomas William (Stirling, Rankin, Saul & Co.)—349-357 Grain Exchange, Winnipeg. June, 1913.
- Saunders, William John (with George A. Touche & Co.)—1532 Bank of Hamilton Bldg., Toronto, Ont. July, 1916.
- Scott, William Bennett—535 Lipton St., Winnipeg. June, 1914.
- Seetree, William Ernest (Price, Waterhouse & Co.)—1310 Corn Exchange Bank Bldg., Chicago, Ill. February, 1913.
- Sharp, George Creed (G. C. Sharp & Co.)—305 Confederation Life Bldg., Winnipeg. June, 1914.
- Shelly, John Joseph Canice—505 Confederation Life Bldg., Winnipeg. May, 1915.
- Slasor, Henry (D. A. Pender, Slasor & Co.)—805 Confederation Life Bldg., Winnipeg. June, 1913.
- Slocomb, Karl Gladstone (with George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. December, 1920.
- Stephens, Robert Erl (with Clarkson Gordon & Dilworth) 15 Wellington St. W. Toronto, Ont. July, 1919.
- Stirling, James Fred (Stirling, Rankin, Saul & Co.)—349-357 Grain Exchange, Winnipeg. October, 1912.
- Stuart, George Alexander (Scott & Stuart)—207-8 Judge Travis Bldg., Calgary, Atla. July, 1911.
- †Swinford, Herbert (c/o Northern Pacific Railway Co.)—Vancouver, B.C. May, 1886.
- Tait, Andrew Wilson (George A. Touche & Co.)—Basildon House, Moorgate St., London, E.C., England. August, 1913.
- Touche, Sir George Alexander (George A. Touche & Co.)—Basildon House, Moorgate St., London, E.C., England. June, 1914.
- Turner, Albert Edward (with Marwick, Mitchell & Co.)—201-4 Huron & Erie Bldg., Winnipeg. December, 1920.
- Turner, Frank C. S. (F. C. S. Turner & Co.)—502 Trust and Loan Bldg., Winnipeg. June, 1905.
- Webb, T. Harry (George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. October, 1912.
- White, Charles Edgar (with Edwards, Morgan & Co.)—710 Electric Railway Chambers, Winnipeg. September, 1915.
- Whyte, David Croom (with Riddell, Stead, Graham & Hutchison)—601 Merchants Bank Bldg., Winnipeg. November, 1919.
- Woodley, James Reginald—Dominion Taxation Office, Tribune Bldg., Winnipeg. June, 1914.
- Wylie, J. Gilmour (George A. Touche & Co.)—707 McArthur Bldg., Winnipeg. August 1913.
- Young, David (with Price, Waterhouse & Co.)—1105 Union Trust Bldg., Winnipeg. September, 1917.
- Young, John Anderson (with Marwick, Mitchell & Co.)—708 Yorkshire Bldg., Vancouver, B.C. June, 1918.
- Young, Joseph Rymal (c/o Land and Agricultural Co. of Canada)—403 Belgica Block, Winnipeg. June, 1910.
- † Honcrary Member

THE INSTITUTE OF
CHARTERED ACCOUNTANTS
OF NOVA SCOTIA

CHAPTER 154.

An Act to incorporate The Institute of
Chartered Accountants of Nova Scotia.

Whereas, Smauel S. Scott, Michael Brown, Robert A. McIntyre, William E. Leverman, Edward J. Longard, William C. Bishop, George E. Faulkner, and W. Simms Lee, all of Halifax, in the county of Halifax, accountants; John Cameron, of New Glasgow, in the county of Pictou, accountants; and Thomas W. Johns, of Yarmouth, in the county of Yarmouth, accountant, on the 12th day of January, 1900, signed a memorandum of association and constitution, constituting themselves and such persons as should become associated with them, an association under the name of "The Institute of Chartered Accountants of Nova Scotia," for the following objects:

(a) To provide a special organization for accountants and auditors, and to do all such things as from time to time may be necessary to elevate the status and advance the interests of the profession of accountants and auditors.

(b) To unite the members of the profession into one general body; to provide for the better definition and protection of the profession and the supply of educated men by a system of examination, and the issue of certificates.

(c) To promote and foster in commercial circles a higher sense of the importance of systematic and correct accounts, and to encourage a greater degree of efficiency in those engaged in book-keeping.

(d) To provide opportunities intercourse amongst the members, and to give facilities for the reading of papers and the delivery of lectures, and for acquisition and dissemination by other means of useful information connected with the profession, and to encourage improved methods of book-keeping.

(e) To watch over, promote and protect the mutual interests of the members.

(f) To assist necessitous members and the widows and children of other dependent kindred of deceased members; to act as treasurers and distributors of any benevolent fund or funds which may be contributed by members or others for these purposes or any of them.

(g) To acquire, or purchase, or lease, and to have, hold, and dispose of, subject to the provisions of any Act of incorporation that may be obtained, any buildings to be used as an institute, college or lecture rooms, or any other property, real or personal, for the advancement of the above objects or any of them.

(h) To do all such other lawful things as are incidental or conducive to the above objects or any of them.

Therefore, be it enacted by the Governor, Council, and Assembly, as follows:

1. The said Samuel S. Scott, Michael Brown, Robert A. McIntyre, William E. Leverman, Edward J. Longard, William C. Bishop, Johns, and such other persons as may become associated with them,

George E. Faulkner, W. Sims Lee, John Cameron and Thomas W. are hereby constituted a body corporate, under the name and style of "The Institute of Chartered Accountants of Nova Scotia."

2. The objects of the Institute shall be the same as contained in the memorandum of association and set forth in the preamble to this Act.

3. All accountants who shall have passed the examinations and tests prescribed by the Council of the Institute shall be eligible for membership.

4. The officers of the Institute shall consist of the President, Vice-President, Secretary and Treasurer, who shall be elected by ballot at each annual meeting of the institute, but the ballot may be dispensed with and open voting substituted by the unanimous vote of the meeting. The offices of Secretary and Treasurer may be held by one person.

5. There shall be a Council, which shall be composed of the officers of the Institute, and not less than three other members, to be elected by ballot at each annual meeting of the Institute.

6. The Council shall from time to time have power to make rules, regulations or by-laws respecting the following matters :

(a) The fees payable to the Institute for examinations, entrance fee, annual subscription, and in respect of such other matters, and upon such other occasions, as the Council may determine, and the amount and time and manner of payment for all such fees.

(b) The power and duties of officers of the Institute ; the use and management of the property of the Institute.

(c) The meetings of the Council ; the meetings of the Institute.

(d) The management and expenditure of all moneys belonging to the Institute.

(e) The admission of accountants as members of the Institute.

(f) All matters relating to the discipline of members of the Institute.

(g) The examination of applicants for membership upon the following subjects : (1) The grouping and classification of accounts, indicating their relation to each other, and the business they record ; (2) the opening of sets of books for a new business ; (3) the method for detecting mistakes resulting from oversight, ignorance and design in book-keeping ; (4) given a set of books to indicate the method or methods to be pursued in order to have an audit of the same.

(h) The appointment of examiners to conduct such examinations ; the standard to be attained thereat, and all matters relating to the conduct of such examinations.

(j) The times and places for holding such examinations.

(i) The publication of all rules, regulations and by-laws of the Institute.

(k) The general management of the affairs of the Institute and all other purposes connected therewith.

7. The corporation may acquire, purchase or lease, have, hold and dispose of, any real estate or building to be used as an Institute, college or lecture room, to the value of six thousand dollars, and may sell, mortgage or otherwise dispose of the same as it may deem fit.

8. The corporation shall have power to make contracts for the purposes of the Institute, and to sue for and collect all fees, subscriptions, dues and assessments, and all moneys of whatsoever kind that may become due to the corporation at any time after the passing of this Act.

(9.) The corporation is hereby empowered to assess itself for any extraordinary expense that may be deemed necessary to further the interests of the Institute, at any meeting called for the purpose by a two-thirds vote of the members present at such meeting.

10. No member of the corporation shall be liable in his person or estate for the debts of the corporation, but all property of said corporation shall be liable for the debts of said corporation.

11. True accounts shall be kept by the treasurer of the sums received and expended by the association, and the matter in respect of which such receipt and expenditure takes place, and of the property, credits and liabilities of the association, and, subject to any reasonable restriction as to the time and manner of inspecting and auditing the same that may be imposed by the rules of the Institute for the time being, shall be open to the inspection of the members. Once, at least, in every year the accounts of the Institute shall be examined, and the correctness of the balance sheet ascertained by one or more properly qualified auditor or auditors.

12. The income and property of the Institute, whence soever derived, shall be applied solely towards the promotion of the objects of the Institute as set forth in this Act, and no portion thereof shall be paid or transferred, directly or indirectly, by way of dividend, bonus or otherwise, howsoever, by way of profit to the members of the Institute, provided that nothing herein shall prevent the payment in good faith of remuneration to any officers or servants of the Institute, or to any member of the Institute or other persons, in return for any services actually rendered to the Institute, nor prevent the payment of interest at a rate not exceeding five-per cent. on money borrowed.

13. The constitution, and the rules, regulations or by-laws of the Institute of Chartered Accountants of Nova Scotia hereby incorporated, and every repeal, amendment or re-enactment of the same, shall be subject to the approval of the Governor-in-Council.

CHAPTER 154.

An Act to Amend Chapter 154, Acts of 1900, Entitled "An Act to Incorporate the Institute of Chartered Accountants of Nova Scotia."

[Passed the 13th day of May, A. D. 1913.]

Be it enacted by the Governor, Council, and Assembly, as follows :

1. No person shall be entitled to take or use the designation "Chartered Accountant" or the initials "F. C. A.," "A. C. A." or "C. A." either alone or in combination with any other words or any name, title or description, implying that he is a chartered accountant, or any name, title, initials or description implying that he is a certified accountant or an incorporated accountant, unless he is a member of the Institute in good standing and registered as such.

2. Any person who contravenes any of the provisions of this section shall incur a penalty not exceeding \$25.00 for each offence, recoverable under The Nova Scotia Summary Convictions' Act.

3. This section shall not apply to those persons who, being members in good standing of the Dominion Association of Chartered Accountants on the 16th day of December, 1909, were on that day entitled to membership in the Institute or to apply therefor.

*

**Note :—*This section amended by Chapter 160 of the Acts of 1914.

*Note :—This section repealed and another substituted by Chapter 160 of the Acts of 1914.

CHAPTER 160.

An Act to Amend Chapter 154, Acts of 1913, entitled : "An Act to Amend Chapter 154, Acts of 1900, entitled 'An Act to Incorporate the Institute of Chartered Accountants of Nova Scotia.'"

[Passed the 14th day of May, A. D., 1914.]

Be it enacted by the Governor, Council, and Assembly, as follows :

1. Section 3 of Chapter 154 of the Acts of 1913 is repealed, and the following substituted therefor :

3 This Act shall not apply to any persons practising as Chartered or Public Accountants in Nova Scotia previous to the thirtieth day of March, 1900, and holding at that date certificates of membership in any Accountants' Institute or Society, nor to those persons who, being members in good standing of the Dominion Association of Chartered Accountants on the 16th day of December, 1909, were on that day entitled to membership in the Institute or to apply therefor.

2. Section 2 of said Act is hereby amended by striking out the word "Section" in the second line of said section and substituting therefor the word "Act."

INSTITUTE OF CHARTERED ACCOUNTANTS OF
NOVA SCOTIA
BY-LAWS

Enacted November 18, 1919 : Approved December 10, 1919.

Membership

1. Any person, not under twenty-one years of age, who shall be certified by two members of the Institute as being of good moral character and habits, and who shall have satisfied the Examination Committee and the Council as to his or her professional attainments and experience, shall on payment of the prescribed fees and signing the constitution, become a member of the Institute, and be granted a Diploma of Accountancy and a Certificate of Membership.

2. All members admitted to membership in the Institute shall pay an admission fee of twenty-five dollars, in addition to the full annual fee.

3. All members shall pay an annual fee of five dollars. The annual fee shall be due and payable in advance by all members on the first day of January in each year.

4. All persons becoming members of the Institute shall subscribe to, endorse and accept the by-laws of the Institute for the time being in force, as being binding upon them as members of the Institute.

5. All duly qualified members are entitled to sign after their names, "Chartered Accountant" or any abbreviation of the words "Chartered Accountant."

6. Annual certificates of membership, signed by the President or Vice-President (in the absence of the President) and the Secretary-Treasurer, shall be issued by the Secretary-Treasurer to all members on payment of their annual fee, and any member whose fee is unpaid shall not be entitled to a certificate of membership or to sign as a Chartered Accountant or use any abbreviation thereof until such annual fee is paid.

7. A list of duly qualified members shall be published in one or more newspapers in the City of Halifax at such times as the Council shall appoint.

8. Every member of the Institute shall have one vote at all meetings of the Institute at which such member is present, but no member who is in arrears for any fees or dues from and payable to the Institute shall be entitled to vote or to be present at any meeting.

9. No member in arrears for any fees or under suspension for any cause shall be eligible for election to the Council until such arrears be paid or suspension removed.

10. Any member who is not in arrears for any annual or other fees may resign on giving notice to the Council in writing.

11. Members practising in partnership with a person or persons who are not members shall not permit the partnership or firm to be described as "Chartered Accountants." Any person named in connection with such partnership by advertisement or otherwise shall be deemed a partner for the purpose of this by-law.

12. No member shall engage in any business, profession or employment, or adopt any form of advertising or method of procuring business which in the opinion of the Council is objectionable in a member of this Institute.

13. All members of the Institute shall be subject to the Act of Incorporation and be amenable to these by-laws, and on any breach thereof duly proven to the Council, the member proven guilty may by vote of the Council be suspended from membership, and during such period of suspension shall not be entitled to sign as a Chartered Accountant or use any abbreviation thereof, or practice as such Chartered Accountant, and public notice of such suspension may, at the discretion of the Council, be published in one or more newspapers in Nova Scotia.

14. Any member whose fees are not paid within three months from the date when such fees have become due and payable may by the Council be suspended from the privileges of membership.

15. A member under suspension for any cause may be re-instated at the discretion of and on such terms as the Council may deem advisable.

16. Any member shall, by action of the Council, cease to be a member in the event of his annual fee being in arrear for twelve months from the date of the same becoming payable, but shall nevertheless be liable to pay the amount of such year's fees, and any other arrears of fees or other sums due by him to the Institute, and shall be liable otherwise as a member. The Council shall have power upon application in special cases to suspend the operation of this clause and re-instate such person on payment of all arrears of dues and charges.

Affiliations.

17. Educational institutions having a department devoted to the study of accounts may become affiliated with the Institute for the purpose of conducting lectures and classes for candidates for the examinations of the Institute.

18. Every educational institution so affiliated with the Institute shall furnish from time to time, so long as such classes are continued, such information respecting the same as will enable the Council to determine the efficiency thereof, having regard to the requirements of the examinations of the Institute; and shall also satisfy the Council as to the competency of the instructors in charge of such classes and lectures. The graduates of such affiliated institutions shall be exempted from the Preliminary Examinations of the Institute.

Officers

19. The officers of the Institute shall consist of President, Vice-President, and a Secretary-Treasurer, who shall be elected by ballot at each annual meeting of the Institute, but the ballot may be dispensed with and open voting substituted by the unanimous vote of the meeting.

20. The President shall preside and preserve order at all meetings of the Institute and Council. In his absence the Vice-President shall exercise the office of President. In the absence of the President and the Vice-President, a Chairman, who for the time being shall be invested with the powers of the President, shall be elected by a majority of those present entitled to vote and voting.

21. The Secretary-Treasurer shall keep the minutes of the proceedings of all meetings of the Institute and Council, conduct all correspondence of the Institute and Council, keep a correct record of

all members and their several addresses, notify members of all meetings of the Institute and Council, and shall keep an account of all moneys received, which he shall deposit in the name of the Institute in such chartered bank as directed, and such expenditures as are made for the benefit or purposes of the Institute and submit a statement of the same, duly audited, at the Annual General Meeting.

22. All cheques shall be signed by the President or the Vice-President (in the absence of the President) and Secretary-Treasurer. All diplomas and certificates shall be signed by the President (or in his absence by the Vice-President) and the Secretary-Treasurer, and attested by the seal of the Institute.

23. The President, or in the absence of the President the Vice-President, or in their absence any member of the Council, shall have power to execute all other documents on behalf of the Institute, all of which documents shall be signed and sealed by the Secretary-Treasurer before having effect.

Committees

24. The Council may from time to time appoint Committees for the purpose of facilitating the business of the Institute.

25. The President, Vice-President, and Secretary-Treasurer shall be ex-officio members of all committees.

Meetings

26. The fiscal year of the Institute shall be the calendar year and the Annual General Meeting of the Institute shall be held on the fourth Tuesday of April in each year, at such place in the City of Halifax as the Council shall appoint, with power of adjourning from time to time. All members of the Institute shall be notified by mail at least ten days previous to the date of such meeting.

27. A special meeting of the Institute may be called at any time by the President, or in his absence, by the Vice-President or by the Secretary on a requisition in writing signed by five members, five days' notice thereof being given. No business other than that specified in the notice shall be brought before the meeting.

28. Five members shall constitute a quorum of the Institute and three members a quorum of the Council.

29. The Council shall be elected at the annual meeting or adjourned meeting of the Institute and shall consist of the officers and not less than three other members.

30. The affairs of the Institute shall be under the control of the Council, which shall submit a report in writing at each annual meeting.

31. Meetings of the council may be called by the President, or in his absence by the Vice-President, whenever necessary. In the absence of the President and Vice-President any member of the Council may, by consent of those present, act as chairman.

32. The members of the Council shall hold office for one year, or until their successors shall be, or have been elected.

33. In the event of a vacancy being caused by death, or otherwise, or any member of the Council being unable or refusing to act, such vacancy may be filled by the surviving members of the Council from the members of the Institute.

34. The introduction or discussion of political or religious subjects shall not be permitted at any meeting.

35. The following shall be the order of business at meetings :

(a) The Council :—

- (a) Minutes.
- (b) Correspondence.
- (c) Reports of Committees.
- (d) Applications.
- (e) Accounts.
- (f) General Business.

(b) The Institute :—

- (a) The reading of the minutes of the last meeting.
- (b) Report of the Council.
- (c) Report of Secretary-Treasurer.
- (d) Correspondence.
- (e) Unfinished business in order of priority.
- (f) New Business.
- (g) The election of officers and Council.
- (h) Appointment of Auditor.

36. Motions shall be offered in writing if required by the Presiding Officer.

37. In all matters not provided by these By-laws the Institute and Council shall be governed by the Act or Charter under which the Institute was organized.

38. At the annual meeting in each year, a member of the Institute, who is not a member of the Council, shall be elected Auditor for the ensuing year.

Examinations

39. The Council shall hold examinations in the month of May in each year in the City of Halifax, which shall be designated respectively:

- Preliminary.
- Intermediate.
- Final.

40. All candidates for examination shall make application for such to the Secretary-Treasurer in writing on the prescribed form, paying at the time of application the required fee.

41. All candidates not residing or employed within the Province of Nova Scotia must furnish to the Council satisfactory reasons for applying or their applications will be declined.

42. Candidates for Preliminary Examinations shall be at least of the full age of seventeen years, Intermediate nineteen years, and Final, twenty-one years.

43. All candidates for examination shall be certified by a member of the Institute to be of good moral character and habits and in his opinion a person suitable on passing the required tests for membership in the Institute.

Preliminary Examinations

44. Candidates who have passed the Matriculation Examinations of any Provincial University or any examination deemed by the Council to be equivalent thereto will be granted exemption from such of the Preliminary subjects as the Council may decide, and all candidates

who have been graduated from the Business Department by any affiliated institution, shall be exempted from this examination.

45. The Preliminary Examination shall embrace the following subjects :

PENMANSHIP—Plain and legible handwriting.

SPELLING—100 ordinary every-day business words.

HISTORY & GEOGRAPHY—Canadian.

GRAMMAR, COMPOSITION and CORRESPONDENCE.

ARITHMETIC—Simple commercial problems.

BOOK-KEEPING—Partnership problems, opening, recording and closing entries, preparation of closing statements, etc.

COMMERCIAL LAW—Bills of Exchange Act.

46. To pass this examination candidates must obtain on each paper on which he is required to write at least 60 per cent. of the total marks given on the papers on which he writes.

47. The fee for this examination, whether complete or partial, shall be ten dollars.

Intermediate Examinations

48. The following classes of persons who have had the requisite or practical experience deemed by the Council to be sufficient shall be eligible to write in the Intermediate Examination :

(a) Holders of Preliminary certificates of this Institute.

(b) Persons who have been granted exemption from the Preliminary Examination of this Institute.

(c) Persons who have passed the equivalent Preliminary Examination of any Incorporated Institute or Society of Accountants with which this Institute has reciprocal relations.

49. The Intermediate Examinations shall include the following subjects :

ARITHMETIC—Advanced commercial problems.

BOOK-KEEPING and PARTNERSHIPS.

BOOK-KEEPING and EXECUTORSHIPS.

COMMERCIAL LAW—The general principles of Mercantile Law and the Nova Scotia Companies Act.

AUDITING.

50. To pass this examination candidates must obtain on each paper at least 50 per cent. and an aggregate of at least 60 per cent. of the total marks given.

51. The fee for this examination shall be fifteen dollars.

Final Examinations

52. The following classes of persons who have had the requisite or practical experience deemed by the Council to be sufficient shall be eligible to write in the Final Examinations:

(a) Holders of Intermediate certificates of this Institute.

(b) Persons who have been granted exemption from the Intermediate Examination of this Institute.

(c) Persons who have passed the equivalent Intermediate Examination of any Incorporated Institute or Society of Accountants with which this Institute has reciprocal relations.

53. The Final Examinations shall include the following subjects :

BOOK-KEEPING and PARTNERSHIPS.

BOOK-KEEPING and EXECUTORSHIPS.

AUDITING.

MERCANTILE and STATUTE LAW.

ACCOUNTING SYSTEMS.

54. To pass this examination candidates shall make at least 50 per cent. on each subject and an aggregate of 60 per cent. of the total marks given.

55. The fee for this examination shall be twenty dollars, but when the Council decide that the candidate may be exempted from the Preliminary and Intermediate Examinations the fee shall be twenty-five dollars.

56. Any person who has passed the prescribed examinations of an incorporated Institute or Society of Accountants whose standards of skill and proficiency have been approved by the Council, and who is certified by the Secretary of such. Institute or Society to be a member thereof in good standing, and who shall satisfy the Council that he has reasonable grounds for seeking to be admitted a member of this Institute, shall be entitled to exemption from the Final Examination.

57. These By-laws may be amended, revised or rescinded at any meeting of the Institute called for the purpose, notice of such amendments or revisions having been given at a previous meeting.

58. All former by-laws of this Institute are hereby repealed.

59. We hereby certify that the foregoing By-laws were duly passed at a meeting of the Institute held on the 18th day of November, 1919.

G. WALLACE DICKSON,
President.

H. D. CREIGHTON,
Secretary-Treasurer.

Approved by the Lieutenant-Governor-of-Nova Scotia-in-Council,
on the 10th day of December, A.D., 1919.

ARTHUR S. BARNSTEAD,
Clerk of the Executive Council.

The following Institutes and Societies are recognized by this Institute as being equivalent in Examination Standard and are declared for the purpose thereof to be within the requirements of By-Laws 48 (c) and 52 (c).

Canadian

The Association of Accountants in Montreal.
The Institute of Chartered Accountants of Ontario.
The Institute of Chartered Accountants of Manitoba.
The Institute of Chartered Accountants of British Columbia.
The Institute of Chartered Accountants of Saskatchewan.
The Institute of Chartered Accountants of Alberta.
The Institute of Chartered Accountants of New Brunswick.

British

The Institute of Chartered Accountants in England and Wales.
The Society of Incorporated Accountants and Auditors.
The Society of Accountants in Edinburgh.
The Institute of Accountants and Actuaries in Glasgow.
The Society of Accountants in Aberdeen.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
NOVA SCOTIA

Officers

President, T. Harold Johnson, Keith Bld., Halifax.
Vice-President, G. G. Holder, Queen Bld., Halifax.
Secretary, H. D. Creighton, Roy Bld., Halifax.

Council

Blackett, J. R., 314 Barrington Street, Halifax.
Creighton, H. D., Roy Building, Halifax.
Crowell, H. E., Chronicle Bldg., Halifax.
Dickson, G. Wallace, Roy Building, Halifax.
Faulkner, Geo., 102 Hollis Street, Halifax.
Holder, G. G., Queen Bldg., Halifax.
Johnson, T. Harold, Keith Bldg., Halifax.
Kaulback, E., 69-73 College Street, Halifax.
Leverman, W. E., Roy Building, Halifax.
McLeod, G. A., Roy Building, Halifax.
Martin, R. L., 109 Edward Street, Halifax.
Piers, T. L. E., 266 Jubilee Road, Halifax.
Studd, W. H., Parliament Bldg's., Halifax.
Torey, C. L., Box 1060, Halifax.

MEMBERS

Abbott, E. H., Truro, N. S.
Atherton, J. P., Box 171, Sussex, N.B.
Blanchet, P. F., St. John, N.B.
Brooks, H. R., c/o Messrs. Job Bros., St. Johns, N.F.
Blackett, J. P., 314 Barrington Street, Halifax.
Carter, Robert, Roy Building, Halifax, N.S.
Coldwell, B. A., Roy Bldg., Halifax, N. S.
Cox, Arthur E., St. John, N.B.
Creelman, T. W., c/o Imperial Oil Ltd., Montreal, Que.
Crowell, H. E., Chronical Bldg., Halifax.
Creighton, H. D., Roy Building, Halifax.
Dennis, C. D., Amherest, N.S.
Dustan, George G., 20 Le Marchant Street, Halifax.
Dickson, G. Wallace, Roy Building, Halifax.
Edwards, George, 10 Adelaide Street, E., Toronto, Ont.
Francis, Joseph I. Sydney Mines, N.S.

Fisher, Geo. L., Stanfields, Limited, Truro, N.S.
 Faulkner, Geo., 102 Hollis St., Halifax, N. S.
 Glendenning, C. H., New Glasgow, N.S.
 Hoben, H. G., Fredericton, N.B.
 Holder, G. G., Queen Bldg., Halifax, N.S.
 Johnson, T. Harold, Keith Bldg., Halifax, N.S.
 Kaulbach, E., 69-73 College Street, Halifax, N.S.
 Longard, E. J., 117 Ingles Street, Halifax, N.S.
 LeChien, Pierre, Arcadia Coal Co. Ltd., Stellarton, N.S.
 Leverman, W. E., Roy Building, Halifax, N.S.
 Mistri, N. R., 1 Club Road, Bombay, India.
 MacIntyre, A. P., St. John, N.B.
 MacIntyre, R. A., 127 Edward Street, Halifax, N.S.
 MacLean, J. Rose, 73 College Street, Halifax, N.S.
 Martin, R. L., 109 Edward Street, Halifax, N.S.
 McNeil, P. L., Aylesford, N.S.
 McLeod, G. A., Roy Building, Halifax, N.S.
 Oxley, Col. F. H., 38 Ingles Street, Halifax, N.S.
 Piers, T. L. E., 266 Jubilee Road, Halifax, N.S.
 Schurman, R., G. Durnford & Co. Canada Life Bldg., Montreal, Que.
 Stech, Walter, A., 73 College Street, Halifax, N.S.
 Studd, W. H., Provincial Auditor, Halifax, N.S.
 Stech, H. J., 9 Church Street, Halifax, N.S.
 Torey, C. L., P. O. Box 1060 Halifax, N.S.
 Woodin, L. A., 69-73 College Street, Halifax, N.S.
 Wood, Joseph, Sydney Mines, N.S.

THE
INSTITUTE OF CHARTERED ACCOUNTANTS
OF BRITISH COLUMBIA

ACT OF INCORPORATION

Chartered Accountants Act, 1905, Amendment Act, 1914

(Chapter 59, Statutes 1905—Chapter 85,
Statutes 1914)

An Act to incorporate the Institute of Accountants of British Columbia.

WHEREAS, an Association has been organized under the name and style of the Institute of Accountants of British Columbia, on the basis of like Institutes duly chartered in Great Britain and in other Provinces of the Dominion of Canada ;

AND WHEREAS, the Institute so formed comprises among its members (1) Chartered Accountants, being members in good standing of recognized Associations of Accountants and now resident in British Columbia ; (2) Public Accountants practising the profession of Accountancy in the Province of British Columbia ; (3) the Accountants of leading financial and business houses in the Province of British Columbia :

AND WHEREAS, members of the Council of the said Institute, on behalf of the members thereof, have petitioned to be granted a Charter of Incorporation to enable them more efficiently to give effect to the aims they seek to accomplish as an intellectual and educational movement to raise the standard of Accountancy with such corporate powers as are hereinafter mentioned, and it is expedient to grant prayer of the said petition ;

THEREFORE, His Majesty, by and with the advice and consent of the Legislative Assembly of the Province of British Columbia, enacts as follows :

1. William Thomas Stein, of the City of Vancouver ; A. L. Berdoe, of the City of Vancouver ; E. B. McDermid, of the City of Nelson, and John B. McKilligan, of the City of Victoria, and all other persons who may hereafter from time to time be admitted to membership of the Corporation, are hereby constituted a body politic and corporate by the name of The Institute of Chartered Accountants of British Columbia (hereinafter called the Institute) ;

2. The Institute shall be composed of the persons set out in section 1 hereof and of all members in good standing of existing Institutes and Associations incorporated under the Acts of any Parliament of Great Britain or the Dominion of Canada, or any province thereof, who shall apply for membership within one year after the passing of the Act, provided that such applicants shall have been members of their respective Institutes and Associations for the period of two years prior to the passing of this Act, and shall have been residents of the Province of British Columbia for a like period ; and of all other persons of whose qualifications and fitness the Examining Board and Council shall approve.

3. The affairs and business of the Institute shall be managed by a Council to be constituted in such manner as may be provided by

by-law, and the aforesaid incorporators shall be the Officers and Council of the Institute until others under the provisions of this Act shall be elected to fill their place.

4. The first annual general meeting of the Institute shall be held during the year 1905 at such time and place and upon such notice as the Council may decide.

5. The objects and powers of the Institute shall be carried out and exercised under a Constitution and By-Laws to be framed and adopted by the Institute in general meeting, which Constitution and By-Laws shall not come into force until approved by the Lieutenant-Governor-in-Council.

6. The Institute is hereby empowered to promote and increase by all lawful ways and means the knowledge, skill and proficiency of its members (or others desirous of joining its membership) in all things relating to the profession or calling of an Accountant, and to that end to establish and conduct or contribute towards Colleges, Libraries, Classes, Lectures and Examinations, and prescribe such tests of competency, fitness and moral character as may be thought expedient. Every member of the Institute shall have the right to use the designation "Chartered Accountant" or the initials "C. A." and may use after his name, if the Institute shall have granted to him a Certificate of Fellowship, the initials "F. C. A." signifying "Fellow of the Chartered Accountants," and if the Institute shall have granted him a Certificate of Membership the initials "A. C. A." signifying "Associate of the Chartered Accountants."

7. The first examination shall be held before a Board of three examiners, who shall be Chartered Accountants, appointed by the Lieutenant-Governor-in-Council, and one of whom shall be one of the Incorporators named in section 1 hereof. All subsequent examinations shall be governed by the by-laws of the Institute.

8. The Institute may take, purchase and hold any personal property, lands, buildings or hereditaments necessary for the purposes of the Association, and may dispose thereof and re-invest the proceeds in such manner as they may deem fit, but so that the Institute shall apply all its profits, if any, and other income in promoting its objects, and shall not at any time pay any dividend to its members.

The provisions of this section shall not prevent the remuneration of members of the Council or Officers of the Institute for services rendered.

9. The Institute shall have power to affiliate with any other Institute or Association of Accountants, whether in the Dominion of Canada, Great Britain, the United States of America, or elsewhere, for purposes of mutual benefit to the profession.

10. The Institute shall have power by by-law to fix entrance fees and annual fees or subscriptions to be paid by members, and may vary the amount from time to time, and no member shall be personally liable for any debt of the Institute beyond the amount of his unpaid fees or subscription as aforesaid.

11. If any member ceases from any cause whatever to be a member of the Institute, he shall not, nor shall his representatives have any interest in or claim against the funds and property of the Institute.

11a. No person shall be entitled to take or use the designation "Chartered Accountant" or the initials "C. A.," "F. C. A.," "A. C. A.," or "C. A. A.," either alone or in any combination with any other

words nor shall he use any name, title or description implying that he is a member of the Institute unless he is a member of the Institute in good standing and registered as such. Provided, that any firm of Chartered Accountants whose Head Office is outside the Province of British Columbia but who maintain an office and practice within the Province, shall be entitled to take and use the designation "Chartered Accountants," and the initials "C. A.," and to practice as such, but only if at least one member of such firm and the Manager thereof for British Columbia are members of the Institute and at least one of such members or said Manager permanently resides in British Columbia; provided, that if the said member or Manager of such firm who is a member of the Institute of Chartered Accountants of British Columbia, should die or resign from such firm, the said firm shall be entitled to continue the use of such designation, provided that another member or Manager of such firm becomes a member of the said Institute within six months of the death or resignation of such member."

11b. Every person who contravenes any of the provisions of the last preceding section, shall for every such contravention, be liable to summary conviction and to a penalty not exceeding one hundred dollars.

11c. The Council shall cause to be kept by the Secretary or other Officer appointed for the purpose a book or register in which shall be correctly entered in alphabetical order, the names of all members in good standing and those members only whose names are entered in the book or register aforesaid, shall be deemed entitled to the privilege of membership in the Institute, and such book or register shall at all times be subject to inspection by any person, free of charge.

11d. Such book or register or copy of the same duly certified by the Secretary, shall be prima facie evidence in all Courts and before all persons that the persons whose names are entered are members of the Institute in good standing, and the absence of the name of any person from such register shall be prima facie evidence that such person is not a member of the Institute."

12. The Council shall by By-law prescribe the conditions upon which persons who have passed the examinations of other corporate bodies having the same or similar objects, may be admitted as members of the Institute, and such conditions shall be reasonable and subject to amendment by the Lieutenant-Governor-in-Council, and if the Council omits to pass such By-law, the Lieutenant-Governor-in-Council may prescribe such conditions.

13. Nothing in this Act shall affect or interfere with the right of any person not a member of the Institute to practice as an Accountant in British Columbia nor with the right of any person not residing or having an office therein, to use any designation as accountant.

14. Nothing in this Act contained shall prevent any person who on the 16th day of December, 1909, was a member of the Dominion Association of Chartered Accountants from using the designation to which he would be entitled by reason of such membership.

15. The Examining Board of the Institute shall be appointed by the Lieutenant-Governor-in-Council.

16. This Act may be cited as the "Chartered Accountants Act, 1905, Amendment Act, 1914."

**THE
INSTITUTE OF CHARTERED ACCOUNTANTS
OF BRITISH COLUMBIA**

Constitution

ARTICLE I.

The name of the Corporation shall be "The Institute of Chartered Accountants of British Columbia."

ARTICLE II.

The membership of the Institute shall be composed of members in good standing of existing incorporated Institutes and Associations of Chartered Accountants (as prescribed in the Chartered Accountants Act, 1905), and of any persons of whose qualifications and fitness the Council approves.

ARTICLE III.

(a) The objects of the Institute are: (1) To promote and increase by all lawful ways and means the knowledge, skill and proficiency of its members (and others desirous of joining its membership) in all things relating to the profession and calling of an accountant; (2) to cultivate a spirit of professional co-operation among its members; and (3) to secure the better recognition of the practice of accountancy as a profession.

(b) To attain these objects it is proposed to establish and conduct or contribute towards Colleges, Libraries, Classes, Lectures and Examinations.

(c) To enable the Institute to more efficiently carry out these objects, it has been granted power to take, purchase and hold personal property, lands, buildings and hereditaments, and to dispose thereof and re-invest the proceeds as may be deemed fit, but so that the Institute shall apply all its profits (if any) and other income in promoting the aforesaid objects, and the Institute shall not, at any time, pay any dividend to its members. The provisions of this section shall not prevent the remuneration of members of the Council or Officers of the Institute for services rendered.

ARTICLE IV.

The Institute shall have power to affiliate with any other Institute or Association of Accountants whether of the Dominion of Canada, Great Britain or the United States of America, or elsewhere, for purposes of mutual benefit to the profession.

ARTICLE V.

If any member ceases from any cause whatever to be a member of the Institute, he shall not, nor shall his representatives have any interest in or claim against the funds and property of the Institute.

ARTICLE VI.

Notice to amend any Article in the Constitution, or to introduce a new one, shall be made in writing to the Council, who shall cause notice of the same to be mailed to each member at least ten days previous to the meeting at which it is intended to be considered. No such amendment shall take effect until it has been passed by a vote of two-thirds of the members present at such meeting and ratified at a subsequent Special General Meeting (held not less than 14 days nor more than one month from the date of the meeting at which such amendment was first passed), and been approved of by the Lieutenant-Governor-in-Council.

THE
INSTITUTE OF CHARTERED ACCOUNTANTS
OF BRITISH COLUMBIA

BY-LAWS

Membership

1. The membership of the Institute (other than Honorary) shall be divided into two classes, namely: "Fellows" and "Associates."

2. All persons admitted to membership in terms of Article II. of the Constitution shall be known as Associate Chartered Accountants. The election of any person as an Associate shall entitle him to a Certificate of Membership granting him the privilege of using the initials "A. C. A." after his name.

3. Associates may be elected Fellows by the Council provided they have been in practice as Chartered Accountants for a period of not less than five years.

4. Every member elected as a Fellow shall be entitled to receive a Diploma of Fellowship, granting him the privilege of using the initials "F. C. A." after his name.

5. The Association by the unanimous vote of its members present at any Annual General Meeting or at a Special General Meeting may, on recommendation of the Council, confer Honorary Membership on any person who may be considered as entitled to receive such an honor on account of his standing or celebrity in the community, or on account of his having rendered some special service to this Institute. The election of any person to Honorary Membership shall entitle him to a Diploma of Fellowship which shall carry with it all the privileges of that degree except voting or holding office in the Institute.

Council.

6. The Council shall consist of not less than nine nor more than twenty-one members. The number of members of the Council shall be fixed by resolution at the Quarterly General Meeting preceding the Annual General Meeting, and may be altered from time to time at such meetings in each year.

7. Nominations for the Council may be made by any member of the Institute and must be delivered in writing at the Secretary's office at least 14 days before the date of the Annual Meeting.

8. A voting paper containing the names, alphabetically arranged, of the persons nominated for election to the Council shall be sent by mail to each member at least ten days before the date of the Annual Meeting, and the Council shall be elected by means of such voting papers, whether the members voting be present at or absent from the Annual Meeting.

9. At the General Meeting in 1915 the whole of the Council shall retire from office and at the General Meeting in every subsequent year one-third of the Council for the time being shall retire from office.

The members of the Council to retire each year shall be those who have been longest in office, since the last election, but as between persons who become members of the Council on the same day those to retire shall (unless they otherwise agree among themselves) be determined by lot.

10. Any casual vacancy occurring in the Council may be filled up by the Council but the person so chosen shall be subject to retirement at the same time as if he had become a member of the Council on the day on which the member in whose place he is appointed was last elected to the Council.

Officers.

11. The officers of the Institute shall be as follows :

- (1) Honorary President.
- (2) President.
- (3) Vice-President.
- (4) Secretary.
- (5) Treasurer.
- (6) Two Auditors.

12. The Honorary President shall be elected annually from among the Honorary Members at the Annual General Meeting of the Institute.

13. Immediately after the election of the Council the Members elected shall meet and elect a President, Vice-President, Secretary and Treasurer from among their number.

14. No member shall be eligible for election as President for more than two years in succession, nor shall he again be eligible for election to that office until two years shall have elapsed.

15. The same person shall be eligible for both the offices of Secretary and Treasurer.

16. At the Annual General Meeting in each year, two members of the Institute shall be elected Auditors for the ensuing year. No member of the Council shall be eligible for the position of Auditor.

Committees.

17. There shall be three standing committees :

- (1) Finance Committee.
- (2) Membership Committee.
- (3) Committee on Legislation.

18. Each Standing Committee shall consist of at least three members of the Institute.

19. Special Committees may be appointed by the Institute, or by the Council, at any meeting.

20. The President and Secretary shall be ex-officio members of all Committees.

Meetings.

21. The Annual General Meeting of the Institute shall be held in each year, at such time and place in the Province of British Columbia as the Council shall from time to time determine.

22. The Quarterly General Meetings of the Institute shall be held in such months and at such places in the Province of British Columbia as may be decided at the Annual General Meeting in each year.

23. Special General Meetings of the Institute may be called by the President at any time, and shall be called by the President to be held within one month after the receipt of a requisition signed by not less than ten members. Such requisition shall state the business

for which the meeting is to be called, and the business shall also be stated in the notice calling the meeting.

24. Ordinary Meetings of the Institute for lectures, reading of papers or discussions of questions of interest to the profession, may be held whenever the Council shall deem expedient.

25. Meetings of the Institute may be adjourned from time to time by resolution of a majority of the members present, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

26. At any meeting of the Institute ten shall constitute a quorum.

27. At meetings of the Institute each member (Fellows and Associates) shall be entitled to one vote.

28. If a member is unable to be present he may vote by proxy (on a form approved of by the Council), but no member shall represent or vote on more than one proxy at any meeting.

29. At any meeting of the Institute two members present may demand a vote by ballot upon any question before the meeting, and the Chairman shall thereupon appoint two scrutineers for the purpose of taking the vote.

30. Notices of the Annual Meeting, Quarterly General Meetings and special General Meetings shall be mailed to each member at least ten days before the date of the meeting, but the non-receipt of such notice shall not invalidate the proceedings of any meeting.

31. Meetings of the Council shall be held at such time and place as the Council may from time to time determine.

32. At any meeting of the Council three shall constitute a quorum.

33. Meetings of committees shall be convened by the chairman thereof at such time and place as he deems advisable.

34. At any meeting of a committee a majority shall constitute a quorum.

35. It shall be the duty of the President (a) to preside at all meetings of the Institute; (b) to enforce the By-Laws of the Institute; (c) to countersign cheques for accounts passed by the Council, and generally to perform such other duties as appertain to the office of President.

36. The President shall, on the advice of the Council, appoint the standing committees, and shall, previous to the annual meeting, appoint two scrutineers to act at that meeting.

37. The President and the Secretary shall sign all papers and documents requiring signature or execution on behalf of the Institute.

38. In the absence of the President, the Vice-President shall possess all the powers and prerogatives of the President.

39. In the event of the absence of the President and Vice-President from a meeting of the Institute or Council, the members shall elect one of their number to preside.

40. The Secretary shall conduct the correspondence, notify members of the Institute and Council of all meetings to be held, record proceedings thereat, keep a register of the members with their address, have custody of the corporate seal and affix the same to all documents when required, see that the applications for admission and the recommendations accompanying the same are in order, make the necessary investigations in respect thereto, send

all required notices to the members of the Institute and of the Council, and generally perform such other duties as appertain to the office of Secretary.

41. The Treasurer shall receive the fees, subscriptions and moneys accruing to the Institute, dispose of the same as the Council may direct, draw and sign all cheques, keep correct accounts, prepare proper financial statements at the termination of each fiscal year, and generally perform such other duties as appertain to the office of Treasurer.

42. The report of the Auditors on the accounts of the Institute shall be read at the Annual General Meeting. The annual statement of accounts shall be delivered to the Auditors at least ten days before each Annual Meeting, and the report of the Auditors shall be filed with the Council five days at least before the date of the Annual Meeting.

Duties Of Committees.

Finance

43. It shall be the duty of this Committee to supervise the finances of the Institute.

44. No account shall be passed for payment till it has been approved of by the Committee or reported upon by them to the Council.

Membership

45. The Committee shall enquire into the standing, character and qualifications of each person proposed for membership or examination and report their finding to the Council. They shall also report the result of each examination, together with such suggestions or recommendations as they may deem fit.

Legislation

46. The Committee on Legislation shall watch all Acts or amendments to Acts affecting the rights of members of this Institute or in any way relating to the profession of an accountant.

Entrance Fees, Dues and Assessments.

47. Every candidate shall pay the following fees :

For the preliminary examination or certificate of exemption therefrom	\$10.00
For registration of articles	10.00
For the intermediate examination	15.00
For the final examination	25.00

48. Each person who shall have passed the examination and paid the foregoing fees, shall, before being elected as an Associate, pay to the Institute an Entrance Fee of \$50.00.

49. Any person being a member, in good standing, of any existing Incorporated Institute or Association of Chartered Accountants, applying for admission in terms of the Act of Incorporation, shall, before being admitted as an Associate, pay to the Institute an Entrance Fee of \$50.00.

50. Each Associate, before being admitted as a Fellow, shall pay to the Institute, a Fellowship Fee of \$50.00.

51. The annual fees shall be due and payable on the 1st day of February in each year, for the year then ensuing. Such fees shall not in any year exceed the sum of \$30.00 for Fellows and \$15.00 for Associates, and shall be fixed by the Council at a meeting prior to the Annual General Meeting in each year.

Funds.

52. The funds of the Institute shall be controlled by the Council, who shall apply the same in payment of the current expenses of the Institute and in furthering the objects of the Institute as set forth in the Act of Incorporation and Constitution.

Candidate For Admission.

53. Any person desiring to become a member of the Institute shall apply in writing in such form as may be approved of by the Council.

54. All applications for membership shall be submitted to the Council, and no person shall be elected as a member except on a favorable report from the Council. A majority vote of the members present at any meeting shall be necessary to elect.

55. The Council shall from time to time make such regulations as regards registration, qualifications and examinations as they may deem advisable.

56. Any person who has passed the prescribed examinations of any Incorporated Institute or Society of Accountants whose standards of skill and proficiency has been approved by the Council and who is certified by the Secretary of such Institute or Society to be a member thereof in good standing, and who shall satisfy the Council that he has reasonable grounds for seeking to be admitted a member of this Institute, shall be entitled to exemption from the Final Examination. (Subject to the provisions of Chapter 85 of the Statutes for 1914, being the Chartered Accountants Act, 1905, Amendment Act 1914. See Sec. 12, Act of Incorporation).

57. Any Incorporated Institute or Society of Accountants may submit for the consideration of the Council, such information as to their courses of study and examinations and as to conditions of membership therein as may be necessary to enable the Council to determine whether such examinations and conditions are equivalent to the examinations and conditions of membership of this Institute; and if such courses of study, examinations and conditions of membership are deemed equivalent to the examinations and conditions of membership in this Institute, the name of such Institute or Society shall be entered in the Register and published in the Year Book of the Institute. (Subject to the provisions of Chapter 85 of the Statutes for 1914, being the Chartered Accountants Act, 1905, Amendment Act 1914. See Section 12, Act of Incorporation).

Resignations, Etc.

58. Any member may tender his resignation which must be in writing, but the same shall not take effect until the arrears of fees (if any) have been paid.

59. Any member whose fees are not paid within three months of the date when such fees have become due and payable, may be suspended by the Council from the privileges of membership during the non-payment of the same.

60. If such default shall continue for twelve months, the Council may thereupon direct that his name be removed from the List of Members. Such person may be re-admitted by ballot of the members upon such terms as the Council shall approve.

Miscellaneous.

61. The Council shall from time to time frame such Rules and Regulations in accordance with these By-Laws as they may deem advisable to carry out the purposes of the Institute more efficiently.

62. Any member or any aggrieved person may prefer to the Council, in writing, charges of default, misconduct or infraction of the Constitution or By-Laws on the part of a member or a student, and the Council shall thereupon investigate the same. In the event of the charges being sustained, the offender may be dealt with as the Council shall see fit.

63. Notices to any member with regard to any complaint which may have been laid, requiring his attendance before the Council, shall be served upon him, either personally or by registered letter to his last known address.

64. Members of the Institute practising in partnership with persons who are not members of some recognized Institute or Association of Chartered Accountants or Certified Public Accountants, shall not describe the firm as "Chartered Accountants" nor use the initials "F.C.A." nor "A.C.A.," after the title of the firm.

65. The Corporate Seal of the Institute shall be circular in form bearing the inscription, "The Institute of Chartered Accountants of British Columbia, Incorporated 1905."

66. The Council shall from time to time make regulations for the official recognition and registration of students, and for the conducting of a Chartered Accountants' Students' Association.

67. The Institute may also contribute towards the expenses of Colleges or similar institutions, or conduct the same for the efficient training of its students and members.

68. The Institute may affiliate with any other Institute or Association of Chartered Accountants, subject to such arrangements as the Council may from time to time approve of.

69. Educational institutions having a department devoted to the study of accounts may become affiliated with this Institute upon such terms and for such purposes as the Council may from time to time prescribe.

70. Notice to amend any By-Law, or to introduce a new one, shall be made in writing to the Council, who shall cause notice of the same to be mailed to each member at least ten days previous to the meeting at which it is intended to be considered. No such amendment shall take effect till it has been passed by a vote of two-thirds

of the members present and been ratified at a subsequent Special General Meeting held not less than fourteen days nor more than one month from the date of the meeting at which such amendment was first passed) and been approved of by the Lieutenant-Governor-in-Council.

Council 1921-1922.

President—George Frederick Gyles
Vice-President—Hall Campbell Chiene
Secretary Treasurer—John Brinkler Woodthorpe.

Carmichael, William Robert
Chalk, Alfred Leslie Crampton.
Edwards, Arthur Harper.
Forsyth, John Dodds.
Winter, George Edward.
Young, John Hayden.

Honorary Auditors.

Walter J. B. Lennard and T. Humphries.

Representatives on the Council of the Dominion Association of
Chartered Accountants.

George Edward Winter and Arthur Harper Edwards.

Institute Officers.

303 Winch Building, Vancouver, B. C.

INSTITUTE OF CHARTERED ACCOUNTANTS OF BRITISH COLUMBIA.

List of Members.

- Anderson, W. B., 404 B. C. Permanent Loan Building, Victoria, B. C.
 Baker, E. P., 505 London Building, Vancouver.
 Bawden, W. A., P. O., Box 87, Victoria.
 Bayly, Ralph, 708 Yorkshire Building, Vancouver
 Bell, Robert, 901 London Building, Vancouver.
 Bland, T. N., c-o Paraffine Companies Inc., 40 First St., San Francisco, Cal.
 Blythe, G. P., Cuba Cane Sugar Corporation, Apartado No. 1270, Havana.
 Boiston, Frederick, 1118 Langley St., Victoria, B. C.
 Bowen, L. P., 706 Standard Bank Building, Vancouver.
 Bowman, Archibald, 79 Wall Street, New York.
 Brewis, John F., 210 Bank of Nova Scotia Building, Vancouver.
 Brodie, A. B., Dominion Express Building, Montreal, Quebec.
 Buttar, W. S., 901 London Building, Vancouver.
 Campbell, H. D., Orient Trading Co., 2 Finlayson Green, Singapore, S. S.
 Carmichael, W. R., 1122 Standard Bank Building, Vancouver
 Carter, F. J., 505 London Building, Vancouver.
 Carter, F. W., c-o Carter Greig & Co., Edinburgh, Scotland.
 Chalk, 9th Street East, North Vancouver.
 Chiene, H. C., 901 London Building, Vancouver.
 Christie, H. D., c-o J. A. Christie, Wellington, London Road, Cheltenham, England.
 Claxton, A. C., Kamloops, B. C.
 Craig, J. A., 601-10th Ave., West, Vancouver.
 Crehan, M. J., Board of Trade Building, Vancouver.
 Dewar, Douglas, 79 Wall Street, New York, U. S. A.
 Dickenson, Sir A. L., 3 Fredericks Place, Old Jewry, London; E. C., England.
 Drury, G. H., c-o Touche Niven & Co., Minneapolis, Minn.
 Edwards, A. H., 404 London Building, Vancouver.
 Edwards, G., 10 Adelaide St., Toronto, Ont.
 Fairnie, A. A., 708 Yorkshire Building, Vancouver.
 Falding, W. H., Bank of Montreal Chambers, Rossland, B.C.
 Field, F., 706 Standard Bank Building, Vancouver.
 Forsyth, J. D., 906 Yorkshire Building, Vancouver.
 Forsythe, Chas. A., 242 Central Building, Seattle, U. S.A.
 Forward, E. W., Ladysmith, Vancouver Island, B. C.
 Foster, A. P., 304-5 London Building, Vancouver.
 Garnsey, Sir G. F., K.B.E., 3 Fredericks Place, Old Jewry; London, E. C., England.
 Genn, R., 615 Sayward Block, Victoria, B. C.
 George, H. W., 210 Bank of Nova Scotia Building, Vancouver.
 Giske, E. H., 1104 Dominion Bank Building, Vancouver.
 Graham, John, 2292 Linden Ave., Edmonds, New Westminster, B. C.
 Griffiths, A. F., Law Chambers, Victoria.
 Griffiths, W., 10th Floor, Standard Bank Building, Vancouver.
 Grover, F. J., 1068 Davie St., Vancouver.
 Gyles, G. F., 405 Bank of Nova Scotia Building, Vancouver.
 Hall, James, 105 South La Salle St., Chicago, U. S. A.

- Hawkins, L. W., Basildon House, Moorgate St., London, E. C.;
England.
- Helliwell, J. F., 708 Yorkshire Building, Vancouver.
- Hinton, H. G., 622 Metropolitan Building, Vancouver.
- Hobbs, S. F., c-o Dale & Co., Ltd., Pacific Building, Vancouver.
- Hodges, W. F., 210 Bank of Nova Scotia Building, Vancouver.
- Humphries, T., 405 Bank of Nova Scotia Building, Vancouver.
- Hunter, Robert W., 613 Vancouver Block, Vancouver.
- Inman, C. V., 837 Hastings St. West, Vancouver.
- Ismay, E. W., 1118 Langley Street, Victoria.
- Jackson, J. H., General Delivery, North Vancouver.
- Jones, F. D., 906 Yorkshire Building, Vancouver.
- Kendall, J., 1201 Dominion Building, Vancouver.
- Kestin, F. R., 806 Dominion Building, Vancouver.
- Kidd, F. H. P. O. Box 254, Nanaimo, B.C.
- Lennard, W. J. B., 304-5 London Building, Vancouver.
- MacLachlan, W. M., 708 Yorkshire Building, Vancouver.
- Malcomson, S., 333 Pine St., New Westminster, B. C.
- Martin, W. S., 330 Seymour St., Vancouver.
- Mathews, L. A., 622 Metropolitan Building, Vancouver.
- May, Geo. O, 54 William St., New York, U. S. A.
- Milne, Bruce W., 711 Vancouver Block, Vancouver.
- Mitchell, S. R., 79 Wall Street, New York, U. S. A.
- Monteith, W. B., 302 Times Building, Victoria.
- Moorehouse, Eli, L. C. Smith Building, Seattle.
- Mouat, A. N., Comptroller-General, Victoria.
- Nesbitt, W. H. A., 901 London Building, Vancouver.
- Page, F. P., 49 Wall Street, New York, U. S. A.
- Paisley, H. J., Western Grocers Limited, Winnipeg, Man.
- Peat, Sir Wm. B., 11 Ironmonger Lane, London; E. C., England.
- Perrin, H. J., 837 Hastings St. West, Vancouver.
- Peters, N. H., 405 Bank of Nova Scotia Building, Vancouver.
- Pirie, Richard B. W., 415 Credit Foncier Building, Vancouver.
- Playle, Geo. H., 681 Dufferin St., Toronto, Ont.
- Price, F. S., 3 Fredericks Place, Old Jewry, London, E. C. England.
- Purse, John, 210 Alaska Building, Seattle, U. S. A.
- Rathie, A. H., 470 Granville St., Vancouver.
- Richardson, Frank, 403 Bank of Nova Scotia Building, Vancouver.
- Riddell Alex Fowler, 80 St. Francois Xavier St., Montreal, Quebec.
- Roberts, Sydney V., P. O. Box 42, West Vancouver, B. C.
- Robertson, C. H. D., 5 Great James St., Bedford Row, London,
W. C. I., England.
- Rorie, George, Federal Bldg., Prince Rupert, B. C.
- Ross, F. A., 105 South La Salle St., Chicago, U. S. A.
- Ross, James, 26 Priory Road, Bedford Park; London; W. 4;
England.
- Rowe, W. G., 1122 Standard Bank Building, Vancouver.
- Runner, F. L., c-o Messrs. Marwick, Mitchell & Co., Boston;
Mass., U. S. A.
- Shaw, A., 711 Credit Foncier Building, Vancouver.
- Small, James D., 208 London Building, Vancouver.
- Smith, S. B., 620 Rogers Building, Vancouver.
- Stein, W. T., 916 Rogers Building, Vancouver.
- Stewart, Andrew, 79 Wall Street, New York, U. S. A.
- Stoddart, Chas. T., 406 London Building, Vancouver.
- Tait, A. W., C. B. E., Basildon House, Moorgate St., London,
E. C., England.

- Tansley, Gordon, c-o Deloitte, Plender, Griffiths & Co.; Montreal;
Quebec.
- Taylor, L. W., 215-16th Avenue, E., Vancouver.
- Taylor, John Leechman, 704 Yorkshire Bldg., Vancouver, B. C.
- Tolmie, W. A., Union Bank Building, Vancouver.
- Touche, Sir G. A., Basildon House, Moorgate St., London; E. C.;
England.
- Tuttle, W. H., 81 Water St., New York; U. S. A.
- Watson, W. R., 210 Bank of Nova Scotia Building, Vancouver.
- Webb, T. H., 610 MacArthur Building, Winnipeg, Man.
- Webster, G. R., 7 Northview Ave., Upper Montclair, N. J.
- White, C. W., 615 Hastings St. W., Vancouver.
- Wicks, H. J., 1533-16th Ave., N., Seattle, U. S. A.
- Wilson, Geo., 210 Produce Exchange, New York, U. S. A.
- Wilson, S., 805 Dominion Bank Building, Vancouver.
- Wilson, W. A., 805 Dominion Bank Building, Vancouver.
- Winter, Geo. E., 210 Bank of Nova Scotia Building, Vancouver.
- Woodthorpe, J. B., 301-2 Winch Building, Vancouver.
- Wyon, Sir A. W., K. B. E., 3 Fredericks Place, Old Jewry;
London, E. C., England.
- Young, J. Hayden, 622 Metropolitan Building, Vancouver.

THE
INSTITUTE OF CHARTERED ACCOUNTANTS OF
SASKATCHEWAN.

Act of Incorporation being Chapter 138 of the Revised Statutes of Saskatchewan 1920.

WHEREAS certain persons have petitioned that they may be incorporated under the name of The Institute of Chartered Accountants of Saskatchewan for the purposes herein contained; and

Whereas it is expedient to grant the prayer of the petitioners:

Therefore his Majesty by and with the advice and consent of the Legislative Assembly of Saskatchewan enacts as follows:

1. Subject to the provisions hereinafter contained there shall be and there is hereby constituted as a body corporate and Politic a society or institute to be styled and known as "The Institute of Chartered Accountants of Saskatchewan" hereinafter called "The Institute."

2. The Institute shall be composed of:

(a) Such persons residing in Saskatchewan who shall within the period of twelve months after the passing of this Act prove to the satisfaction of a board to be appointed by the Lieutenant Governor in Council that they have been engaged in accounting for a period of five years and who shall if required successfully pass such examinations as may be prescribed by the said board;

(b) Such other persons as shall hereafter become members of the Institute as hereinafter provided;

(c) The membership of the Institute shall consist of two classes, namely, Fellows and Associates.

(2) Every person who desires to have his qualifications as an accountant examined into by the said board as aforesaid shall pay to the board such fees as may be fixed by the Lieutenant Governor in Council and all fees so paid shall be used to remunerate the board for their services and to cover the expenses of any examination which may be held.

3. So soon as six persons shall have become qualified under the provisions of clause (a) of section 2 hereof the Lieutenant Governor in Council shall order that the names of the said persons shall be published in The Saskatchewan Gazette and upon such publication the said persons shall be and shall constitute the said Institute, and shall have power to do and perform all the Acts and things which the said Institute is by this Act empowered to do and perform.

4. The Institute by the name aforesaid shall have perpetual succession and may sue and be sued in any court and have and use a common seal and be capable of making and receiving all debts, conveyances, transfers, assignments and contracts necessary to carry out effectually the provisions of this Act and to promote the objects and designs of the said institute; and the said Institute shall subject to the provisions of this section be capable by its corporate name of taking, purchasing, holding, sell-

ing, mortgaging and disposing of all and any goods, chattels, lands, tenements and hereditaments and any real or personal property whatsoever and any interest therein which may from time to time be necessary or convenient for the purposes of the Institute; but the Institute shall not engage in trade or deal in lands or any interest therein but may apply moneys derived from fees, voluntary contributions or donations from members or others towards the maintenance and objects of the Institute in such manner as the said Institute shall from time to time by by-law direct:

Provided always that the said Institute shall only have power to acquire and hold such real estate as shall not at any one time exceed an annual value of five thousand dollars and shall have and hold such real estate only so far as the same shall be necessary for the purposes of the said Institute within Saskatchewan; and

Provided also that it shall be lawful for the said Institute to invest the funds of the Institute in the bonds and debentures of any loan company duly incorporated transacting business in Saskatchewan or of any municipal corporation or in any government securities of Canada or of Saskatchewan

5. The Institute is hereby empowered to promote and increase by all lawful ways and means the knowledge, skill and proficiency of its members in all things relating to the business or calling of an accountant and to that end to establish classes, lectures and examinations and prescribe such tests of competency, fitness and moral character as may be thought expedient to qualify for admission to membership and to grant diplomas to such members enabling them to use the distinguishing letters "C.A." (Chartered accountant) as a certificate of such membership and competency; and also from time to time to hold examinations and grant certificates of competency as bookkeepers to such persons as may desire to come before the Institute for examination for which examination they shall be entitled to charge a fee of \$10.

(2) Every member of the Institute may use after his name, if he is a fellow the initials "F.C.A.," signifying "Fellow of the Chartered Accountants," and, if he is an associate, the initials "A.C.A.," signifying "Associate of the Chartered Accountants."

6. An annual general meeting shall be held once in each year at such time and place as the Council of the Institute shall direct and subject to such regulations as may be provided by the by-laws of the Institute, for the election of the Council and the transaction of such business as may be brought to such meeting, or, in case such meeting for any cause has not been held, a subsequent meeting for such purposes may be held under a by-law of the Institute passed for such purpose; in default of such election at the time and in the manner provided, the retiring officers and council shall continue to act until their successors shall be duly appointed

7. The affairs, business and concerns of the Institute as provided for by the by-laws shall be managed by a Council of seven members elected as in the preceding clause hereof mentioned, and the Council shall from its members elect a President, Vice President, Secretary and Treasurer the same person being eligible for both the last mentioned offices, and may appoint such other officers as may be provided for by the by-laws of the Institute. All vacancies which may occur among the officers of the Council by

reason of death or otherwise in the interval between two annual meetings may be filled by the Council.

8. The Institute in general meeting assembled or at a special meeting called for that purpose may make by-laws for the government of its members and the carrying out of its objects and in the fulfilment of its powers and the Council may from time to time repeal, amend or re-enact the same; but every such by-law and every repeal, amendment or re-enactment thereof unless in the meantime confirmed at a special meeting of the Institute called for that purpose shall have force only until the next annual meeting of the Institute and in default of confirmation thereof shall at and from that time only cease to have force.

MEMBERS.

9. No member shall be personally liable for any debt of the Institute beyond the amount of his unpaid fees or subscriptions as aforesaid.

10. The Institute may expel any member for misconduct or violation of the by-laws of the Institute on complaint made in writing and after inquiry into the same.

11. If any member during his lifetime ceases to be a member of the Institute he shall not nor shall his representatives have any interest in or claim against the funds or property of the Institute in respect of his membership.

FEES.

12. The Institute may charge such fees as may be approved by the Lieutenant Governor in Council.

FALSE PRETENCES OF MEMBERSHIP PENALTY.

13. It shall not be competent for any person who is not a member of the said Institute to pretend to hold, take or use any name, title, addition or description implying that he holds a diploma or certificate from the said Institute or to falsely represent or use any title representing that he is such.

(2) No person shall be entitled to take or use the designation of "Chartered Accountant" or the initials "F.C.A." or A.C.A., either alone or in combination with any other words or any name, title or description implying that he is a Chartered Accountant or any name, title, initials or description implying that he is a certified accountant or an incorporated accountant unless he is a member of the said Institute in good standing and registered as such.

14. Every person who contravenes any of the provisions of the last preceding section shall for every contravention incur a penalty of \$50.

15. The penalty imposed upon any such conviction shall be forthwith paid over one-half to the Institute and the other half to the provincial treasurer, the latter amount to form part of the general revenue fund of Saskatchewan.

16. The penalty imposed by section 14 of this Act may be recovered with full costs of suit in the name of The Institute of Chartered Accountants of Saskatchewan in the proper district court.

17. The council of the Institute shall cause to be kept by the secretary or registrar a register in which shall be entered in

alphabetical order the names of all members in good standing ; and those members only whose names are inscribed in the register shall be deemed entitled to the privilege of membership in the Institute and such register shall at all times be subject to inspection by any person free of charge

(2) Such register or a copy of the same or an extract therefrom duly certified by the secretary or registrar shall be prima facie evidence in all courts and before all persons that the persons therein specified are members of the Institute in good standing, and the absence of the name of any person from such register shall be prima facie evidence that such person is not a member of the said Institute.

18. Nothing in this Act shall effect or interfere with the right of any person not a member of the Institute to practise as an Accountant in Saskatchewan.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
SASKATCHEWAN.

BYLAWS.

1.—MEMBERSHIP.

SECTION 1. The membership of the Institute of Chartered Accountants of Saskatchewan shall consist of two classes, viz., "Fellows and Associates."

SECTION 2. No person under 21 years of age shall be eligible for membership.

SECTION 3. Application for membership of those intending to qualify by examination shall be in the form set forth in Schedule "A" hereto attached, and shall be delivered to the University Board of Examiners in Accounting at the time application is made to write upon the final examination.

SECTION 4. All applications for membership in the Institute from candidates who have passed the final examination shall be delivered by the University Board of Examiners in Accounting to the Secretary of the Institute, together with the prescribed fee of \$50.00.

SECTION 5. All candidates for admission as members by examination shall be balloted for by the Institute. A voting paper containing the names of such candidates shall be sent by mail to each member in good standing. The voting paper in the form set forth in the schedule attached (Form "F") shall be marked and signed by the voter and lodged with the president of the Institute within ten days of mailing date. In case one or more negative votes are registered the President may withhold election of such candidate until the matter has been investigated by the Council. In the event of being admitted they shall have the right during the continuance of membership to use the appellation "Chartered Accountant" and to be styled an "Associate."

SECTION 6. Any person who shall have been a member for at least ten years, and who is a non-practising Accountant may, on recommendation of the Council, be elected an Honorary Member, at any meeting of the Institute, by a two-thirds vote of the members entitled to vote.

Provided, however, that should any Honorary Member again become a practising Accountant, he shall cease to be an Honorary Member and shall be again liable for his annual subscription. Honorary Members shall not be eligible for election as members of the Council but shall have the right to be present and vote at all meetings of the Institute,

SECTION 7. Any person who has rendered conspicuous service to the Institute may be recommended by the Council for election at any meeting of the Institute as an Honorary Member. Such election must be unanimous. Honorary membership shall not confer upon any person the right to be styled a "Fellow," or an "Associate" or "Chartered Accountant," or to be elected as a member of the Council, or to vote.

SECTION 8. Any Chartered Accountant who is residing and practising in the British Isles, the United States, or in the Provinces in Canada other than Saskatchewan, and who is a member of a Chartered Accountant's Institute or Association shall be eligible for election by the Council as an Associate Member in this Institute on the same terms and conditions as are granted to members of this Institute in the Association or Institute of which the applicant who may be applying for membership in the Saskatchewan Institute is a member. The foregoing provision does not apply to applicants who are members of Institutes or Associations of Great Britain. He shall be given a vote at all annual meetings but shall be disqualified from holding office in this Institute. The fees for such nonresident members shall be \$50 entrance and \$10 per annum.

SECTION 9. Any Incorporated Institute or Society which shall satisfy the Council that its standard of examination and conditions of membership conforms to the standard of examinations and conditions of membership of this Institute shall be entitled to be registered accordingly and shall be designated a "Registered Society."

The examinations of the following Societies have been approved by the Institute and declared for the purpose of Section 9 of By Law No. 1 "Membership" to be equivalent to the Examinations of the Institute :

The Society of Incorporated Accountants and Auditors, London, England.

The Society of Accountants in Edinburgh.

The Institute of Chartered Accountants of England and Wales.

The Institute of Accountants and Actuaries in Glasgow.

The Society of Accountants in Aberdeen.

The Institute of Chartered Accountants of Ireland.

The Institute of Chartered Accountants of Ontario.

The Association of Accountants in Montreal.

The Institute of Chartered Accountants of Manitoba.

The Institute of Chartered Accountants of British Columbia.

The Institute of Chartered Accountants of Nova Scotia.

The Institute of Chartered Accountants of Alberta.

The Institute of Chartered Accountants of New Brunswick.

SECTION 10. Membership in a "Registered Society" shall entitle, on application, any member thereof to be elected by the Council an Associate Member of the Institute, if such person or firm practices and resides within the Province on the same terms and conditions as are granted to members of this Institute in the Association or Institute of which the applicant who may be applying for membership in the Saskatchewan Institute is a member. The foregoing provision does not apply to applicants who are members of Institutes or Associations of Great Britain. The fee for such member shall be \$50 entrance and \$12 per annum.

SECTION 11. All members at the time of their election shall be required to take a declaration of loyalty, which shall be in the form set forth in the Schedule hereto attached—Form C.

2.—FEES AND SUBSCRIPTIONS.

SECTION 1. The entrance fee, which must accompany application for membership as set forth in by-law 1 section 3, shall be \$50.00, which shall be returned to the candidate in the event of his failing to pass the final examination or withdrawing his name, by the University Board of Examiners in Accounting, and in the event of his being refused admission to the Institute, by the Secretary of the Institute.

SECTION 2. Annual subscriptions shall be payable in advance on the second day of April in each year. The annual subscriptions shall be :

Members resident in Saskatchewan \$12

Nonresident members 10

The annual subscription of \$12 for resident members shall include membership fee to the Dominion Association of Chartered Accountants and yearly subscription to The Canadian Chartered Accountant.

The Entrance fee for new members shall cover the annual subscription in the year of entrance with the exception in the case of members residing in Saskatchewan of the subscription to the Dominion Association of Chartered Accountants and the yearly subscription to the Canadian Chartered Accountant

SECTION 3. Any member shall cease to be such and shall cease to exercise any of the privileges of membership if he allows his subscription, fees or dues of any kind to fall in arrears for the period of three months from date of maturity, and it shall be the duty of the Secretary to notify in writing, by registered letter to his last known address, any member who may be in arrears. at least one month before the expiration of the said three months, what his arrears are, and at the same time to call his attention to this By-Law.

SECTION 4. No member shall be eligible for office, or be entitled to vote, until his entrance fee and all other fees or dues of any kind have been paid.

3.—UNPROFESSIONAL CONDUCT.

SECTION 1. Unprofessional conduct is and shall be defined as follows :

(a) Soliciting business in writing or in any other manner by members from clients of other members of the Institute ;

(b) Submitting tenders upon the request of any person, firm, corporation or municipal body in which any work is agreed to be undertaken at fees which are known to be below the Tariff of Fees of the Institute.

(c) Accepting any work at a lower fee than that charged by any other member who has been doing such works for the purpose of securing the audit ;

(d) Making any statement in writing or otherwise to any client of any other member of the Institute which may be construed as casting a reflection on the character, reputation or the ability of such member, or in any way leading such client to believe that any member is inferior in ability to any other member for the purpose of furthering the interests of any member or firm composed of members of the Institute ;

(c) To advertise in any manner anything which is untrue for the purpose of attracting business or for the purpose of leading the public to believe that any member or firm composed of members is superior in ability and has better facilities for doing the work incidental to the profession than any other member or firm composed of members.

(f) In any other way injuring the standing of the Institute as a body or any one of its members by any act or speech;

(g) Being convicted of any indictable offence.

SECTION 2. Any member against whom charges of unprofessional conduct shall be brought, shall be tried before the Council and on proof shall be liable to suspension or expulsion.

SECTION 3. No member shall be put on trial unless charges in writing duly specifying his alleged offence shall first be submitted to the Council, and a copy of the same shall be forwarded to the accused by the Secretary forthwith.

SECTION 4. The Council shall, with as little delay as possible, summon the parties and examine and determine the matter in question according to the evidence given, but the accused or the party accusing shall have the right to appeal to the Institute from the decision of the Council within one month of the date of the Secretary's notification to him in writing of the Council's decision and the Council upon receipt of a notice of appeal in writing shall cause a special meeting of the Institute to be called within twenty-one days of receiving such notice, providing that no regular meeting shall be held within that time; and at such meeting the Council shall lay before the Institute the evidence taken, and the decision of the Council shall be reversed only by a two-thirds vote of the members present entitled to vote.

SECTION 5. If no appeal is made, the decision of the Council shall suspend or expel a member. The decision of the Council, or if appealed from of the Institute, shall be final and conclusive as to the interpretation of the By-Laws of the Institute, and as to action taken with reference to any members so suspended or expelled.

SECTION 6. Members of the Institute holding the Degree in Accounting who under Section 3 of this By-Law have been found guilty of unprofessional conduct, may on the recommendation of the Institute be deprived by the Senate of the University of all certificates and diplomas conferred by them. Should the Senate of the University decline to adopt the recommendation of the Institute an appeal may be made by the Institute to the Chief Justice or a Justice of the Court of King's Bench, nominated by him.

SECTION 7. In the event of the suspension or expulsion of a member, the Council shall be at liberty to cause notice thereof to be published in such newspapers or journals as they may elect.

SECTION 8. In the event of the suspension or expulsion of a member, every certificate of membership then held by him shall be delivered up by him to the Council, to be retained during his suspension, or in the case of expulsion, to be cancelled.

4.—ELECTIONS.

SECTION 1. All elections shall be by ballot, but when only one member is proposed for office. then the presiding officer shall declare him duly elected.

SECTION 2. The Institute shall elect annually a Council of seven members. All members in good standing shall be eligible for election thereto. Immediately after election of the Council the members elected shall meet and elect from among their number a President, Vice President, Secretary Treasurer, and a representative on the Dominion Council, such representative to be elected for two years. t

SECTION 3. Vacancies which may occur in the Council by death or otherwise, between two annual meetings, may be filled by the Council.

SECTION 4. The Institute shall annually elect an Auditor.

5.—DUTIES OF OFFICERS AND COUNCIL.

SECTION 1. The duty of President shall be to preside and to preserve order at all meetings of the Institute and Council, and in his absence the Vice President shall exercise the office of President. In the absence of President and Vice President, a Chairman who for the time being shall be invested with the powers of President shall be elected by a majority of those entitled to vote and and voting. The President shall put all motions to the meeting and shall declare same carried or not, as the case may be. He shall have the right of voting as if not in the chair and if there is any equality of votes he shall declare the motion lost. All cheques shall be countersigned by the President, or Vice President in the absence of the President.

SECTION 2. The Secretary Treasurer shall conduct the correspondence of the Institute and the Council, notifying members of the Institute and the Council of all meetings, record the proceedings thereof in a Minute book, keep a register of the members and of those to whom certificates have been granted, with their addresses, see that the applications for admission and the recommendations accompanying the same are in the form prescribed, that all required notices are sent to the members of the Institute and of the Council. He shall also have charge of the seal of the Institute and shall only use it as the Council may direct.

SECTION 3. He shall receive all entrance fees from the University and collect all subscriptions and moneys accruing to the Institute and deposit the same in a Chartered Bank to be designated by the Council; disburse and dispose of the same as the Council may direct, draw and sign all cheques in the manner prescribed, keep correct accounts of all receipts, disbursements, and dispose of the funds in such manner as the Council may determine from time to time and prepare the annual statements named in By-Law No. 6, and generally perform such duties as appertain to the office of Treasurer.

SECTION 4. The Council shall have power to apply the funds of the Association after payment of current expenditure in providing rooms for the Institute and in furnishing the same and in furnishing a library and such other purposes as they may deem advantageous to the Institute or its objects. to determine what applications shall be submitted to the Institute for Ballot and to order special meetings of the Institute, and generally do all things which they may consider in the interests of the Institute, subject, however, in all things to the By-Laws for the time being in force. Four shall form a quorum and in all cases a majority vote of those present shall rule.

6.—AUDIT.

SECTION 1. The Treasurer shall, fourteen days prior to the Annual Meeting, deliver to the Auditor of the Institute the Books of Accounts, together with all vouchers, receipts and other financial documents necessary to enable him to make a satisfactory audit and report, and also Statement of Receipts and Disbursements, and Assets and Liabilities to the last day of March. He shall examine the above and confirm the same or make a special report thereon, and such confirmation or report shall be read with the accounts at the Annual Meeting.

7.—MEETINGS.

SECTION 1. The Annual Meeting of the Institute shall be held once in each year at such time and place as the Council shall direct, of which at least ten days' notice shall be given, for the election of the Council and an Auditor in accordance with By-Law No. 4, and for the transaction of general business and at such Annual Meetings one third of the members resident in Saskatchewan shall be a quorum. All notices to be given to the members of the Institute shall be deemed to have been given if mailed prepaid at the post office, addressed to the member at the address given by him to the Institute, and if no address shall have been given, then the member's address shall be deemed "City," and such notice shall be addressed to the member at that place and a certificate under the hand of the Secretary shall be conclusive evidence of the mailing of such notice.

SECTION 2. Special meetings of the Institute shall be called upon receipt of a requisition to the President or Vice President signed by not less than three members, and at such special meetings one third of the members resident in Saskatchewan shall be a quorum, and no other business except that specified in such requisition shall be brought before the meeting except with the unanimous consent of those present.

SECTION 3. Meetings of the Institute may be adjourned from time to time by majority of those present entitled to vote and voting. If within half an hour of the time appointed for the meeting a quorum is not present, the meeting if convened upon the requisition of members shall be dissolved. In any case it shall stand adjourned to the same day in the next week, at the same hour and place; and if at such adjourned meeting a quorum is not present, those members who are present shall proceed to the business for which the meeting was called, to the same effect as if a quorum was present. At least seven days' notice must be given of all special meetings.

SECTION 4. At any meeting of the Institute two members may demand that the voting upon any question before the meeting shall be by ballot, and the President, shall thereupon appoint two scrutineers for the purpose of taking the vote.

SECTION 5. At every meeting of the Institute every member in good standing shall have a vote.

8.—COUNCIL MEETINGS.

SECTION 1. The Council shall meet at such time and place as the majority may decide or on the call of the President or Presiding Officer for the time being. Members of the Council non-resident in the place at which any meeting is held shall be paid

by the Institute their transportation expenses going to and returning from said meetings, in addition to reasonable hotel expenses. Four shall form a quorum.

9.—PROCEDURE AT MEETINGS.

SECTION 1. The order of procedure at meetings shall be as follows :

(a) The Council—

1. Reading, correcting and adopting minutes.
2. Reading and considering correspondence.
3. Reading and considering reports of committees.
4. Reading and considering applications for membership.
5. Passing Accounts.
6. General business.

(b) The Institute—

1. Reading, correcting and adopting minutes.
2. Reading and considering correspondence.
3. Reading and considering reports of committees.
4. Amendment to By-Laws.
5. Elections.
6. General Business, which shall consist of business brought forward by the Council, or member.

SECTION 2. The procedure at all meeting shall be governed by the rules laid down in Bourinot's manual, except as the by-laws of the Institute otherwise provide.

10.—PAPERS AT MEETINGS.

SECTION 1. Questions for decision and the subject of written papers on appropriate themes to be read at any meeting must be approved by the Council. "Questions" and "Themes" having such approval shall in all cases have precedence.

SECTION 2. The introduction of political or religious subjects or their discussion shall not be allowed at any meeting of the Institute or Council

11.—EXAMINATIONS.

SECTION 1. The University with the consent of the Council shall from time to time make such rules and regulations with regard to examinations and the holding of the same as they may deem advisable

SECTION 2. The University shall conduct the examination required for the admission to the Institute by means of an Examining Board of at least six members and such additional members as the University deems necessary. The majority of the members of the Board shall be chosen from the membership of the Institute by the University.

3. The University Board of Examiners in Accounting shall give notice of all regulations governing examinations as agreed upon, in the Calendar of the School of Accounting and shall after the annual examinations have been completed, notify the Secretary of the Institute in writing of :—

a The names and addresses of all candidates who have passed the final examination and are therefor eligible to be voted on as members of the Institute.

b The names and addresses of all candidates who have passed the intermediate primary and bookkeepers examinations.

12.—PARTNERSHIP.

Members practising in partnership with persons who are not Chartered Accountants shall not permit the partnership or firm to be described as "Chartered Accountants." Any person named in connection with such partnership or firm by advertisement or otherwise shall be deemed a partner for the purpose of this By-Law.

13.—BRANCH OFFICES.

Any office within the Province of Saskatchewan purporting to be the branch office of a Chartered Accountant or firm of Chartered Accountants shall be in the direct charge of a member of this Institute who is resident in the place where such office is situate.

14.—SALARIES AND FEES.

The Secretary Treasurer shall receive such remuneration as the Council shall from time to time determine.

15.—OFFICIAL DOCUMENTS.

All Diplomas, certificates and other official documents shall be signed by the President, Vice President and the Secretary and attached by the Seal of the Institute. Diplomas shall in addition be signed by the President of the University of Saskatchewan

16.—FELLOWSHIPS.

SECTION 1.—The Institute shall elect a committee of three fellows of the Institute to carry out the provisions of this By-Law, one member to retire each year in order or seniority. Retiring members must be eligible for re-election. Any vacancy in the Committee due to retirement or death shall be filled by the Council for the unexpired portion of the retiring member's term.

SECTION 2. The Committee on Fellowships shall each year recommend to the Institute who, in their opinion should be elected Fellows of the Institute, such recommendation to be based solely on conspicuous service to the Institute, outstanding ability in connection with the profession or exceptional services to the Profession.

SECTION 3. Members of the Institute who are resident in the Province of Saskatchewan and non-resident members providing the consent of the Institute of the Province in which such member resides has been obtained, who have been members of the Institute for at least five years and are thirty years of age or over shall be eligible to become Fellows of the Institute under this By-Law.

SECTION 4. The names recommended by the Committee on Fellowships shall be voted on by the Institute in Annual Meeting, such elections to be by ballot and a majority of all votes cast shall elect.

17.—COMMITTEES.

The Council may from time to time appoint Committees for the purpose of facilitating business. The President and Secretary Treasurer shall be ex officio members of all Committees.

18.—ALTERATIONS OF BY-LAWS.

SECTION 1. The By-Laws for the time being in force may be repealed, altered or added to from time to time by the Council of the Institute, but such repeal, alteration or addition shall have force only until the next Annual or General Meeting of the Institute, when, if not then confirmed, they shall cease and have no effect from that date only, but any By-Law may be suspended for the time being at any meeting by a two thirds vote of those present entitled to vote.

SECTION 2. Any member may give notice in Annual Meeting that he will at the next Annual Meeting bring forward a motion to amend or repeal any By-Law or By-Laws, or notice may be given by leaving a copy of the proposed resolution at the office of the Secretary-Treasurer not later than March 15th of the year in which the Annual Meeting is held.

SECTION 3.—The Forms set forth in the schedule to these By-Laws shall be used in cases to which they are applicable, with such alterations, if any, as the Council may from time to time determine; and all notes and directions thereon shall be deemed part of the forms and be observed accordingly.

SECTION 4. In the event of any dispute as to the intent or meaning of any of these By-Laws or of any By-Law which may hereafter be made, the interpretation by the Council shall be final and conclusive.

19.—SEAL.

The Seal impressed on these By-Laws shall be the Seal of the Institute.

SASKATCHEWAN MEMBERS

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SASKATCHEWAN.

OFFICERS 1921-22.

President.

F. J. Pilkington Yorkton

Vice-President.

G. C. Rooke Regina.

Council.

J. Neilson Saskatoon.

B. R. Masecar Saskatoon.

C. E. Walker Regina.

W. E. Hodge Moose Jaw.

Secretary-Treasurer.

T. Lax Regina.

Representatives on Dominion Council.

B. R. Masecar Saskatoon.

F. J. Pilkington Yorkton.

Auditor.

J. D. Dawson Regina

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SASKATCHEWAN.

LIST OF MEMBERS.

L. J. Adams, Leader Publishing Co., Regina.
 E. T. Bagshaw, Prince Albert.
 G. E. Baskie, Scovell Wellington and Co., 110 State Street, Boston,
 E. S. Biggs, Sterling Trust Building, Regina.
 C. J. Bingley, 1926 Argyle Street, Regina
 W. H. Briggs, 202 Drinkle Building, Saskatoon.
 Montague Clements Regina
 J. A. Corble, 1987 Beach Avenue, Vancouver, B. C.
 H. L. Crossley, North Battleford.
 G. W. Coles, New York.
 J. J. Cordner, W. A. Henderson and Co., 508-9 Electric Railway
 Chambers, Winnipeg.
 A. W. Cole, 157 St. James Street, Montreal.
 Geo Cowan, 320 Lougheed Building, Calgary.
 Robt. Cheyne, Harrison and Crossfields Ltd., Box 1056, Montreal.
 A. A. M. Dale, Weyburn.
 W. J. Dawson, Royal Bank Chambers, Regina.
 Douglas Dewar, Marwick Mitchell and Co., Winnipeg.
 A. A. Davis, 2315 Hamilton Street, Regina.
 R. E. Davis, Box 449, Yorkton.
 Jas. D. Dawson, Broadway Court, Regina.
 A. G. deSerres, Credit Foncier Building, Regina.
 Frederick E. Doull Regina
 Geo Edwards, 10 Adelaide St. E., Toronto.
 Victor J. Ferguson, Canada Building, Saskatoon.
 Fred W. Ferguson, 1279-West 112th Street, Cleveland, U. S. A.
 C. V. Gladwell, 801 McCallum Hill Bldg., Regina.
 O. J. Godfrey, Indian Head.
 Thomas Grant, 2033 32nd Avenue South, Seattle, U. S. A.
 A. W. Goldie, 2103 Winnipeg Street, Regina.

- A. G. Garrish, Estevan.
 Lawrence Giles, Marwick Nitchell and Co., Moose Jaw.
 W. W. Gladwell, 185 Fulton Avenue, Toronto.
 Percy F. Heal Moose Jaw.
 W. E. Hodge, Merchants Bank Building, Moose Jaw.
 W. H. Hurley, 1124 Grosvenor Avenue, Winnipeg.
 F. G. Hopper, National Trust Co., Regina.
 D. A. Henderson, Inspector of Taxation, Prince Albert.
 Wm. James Hyde Regina.
 Louis Jacobs, 1925 William Street, Regina.
 Thomas Law, Winnipeg.
 S. G. Lowthian, 2250 Robinson Street, Regina.
 C. F. Lidster, 228 Kensington Street, Winnipeg.
 T. Lax, Regina.
 A. W. Longridge, Lumsden.
 David Mowat, Canada Building, Saskatoon.
 B R. Masecar, 414 Drinkle Building, Saskatoon..
 Arthur Mason Regina
 Keith H. Mundell, Saskatoon.
 Donald McTavish, Canada Building, Saskatoon.
 D. A. McDonald, 1629 Comox St., Vancouver.
 Jas. Neilson, University of Saskatchewan, Saskatoon.
 J. S. Nicholl, 12 Belsize Road, London, N. W. 6, England.
 F. M. Oliver, 23 Becker Block, Medicine Hat.
 Wm. O'Neill Kelowna, B. C.
 J. C. Pope, Regina.
 A. E. Parker, Canadian Finance, Winnipeg.
 H. J. Palmason. 808 Confederation Life Bldg.. Winnipeg.
 F. J. Pilkington, Yorkton.
 G. C. Rooke, Leader Building, Regina.
 W. S. Ronald. 804 Lindsay Building. Winnipeg
 Ewen Rankin, 349 Grain Exchange, Winnipeg.
 J. F. Rowan, Dominion Bridge Co., Montreal.
 D. Binny Robertson, 157 St. James St., Montreal.
 T. E. Robinson, Farmers Building, Regina.
 J. W. Rosborough, 62 Fairford St. W., Moose Jaw.
 Geo N. Ross, 905-9th Avenue N., Saskatoon.
 Henry T. Ross, 1452 Garnet Street, Regina.
 Keith Scott, 73 Albany Avenue, Toronto.
 R. E. Sayce, 681 University Street, Montreal.
 S. B. Scott, Imperial Oil Co., Sarnia.
 A. B. Shepherd, Marwick Mitchell and Co., Royal Bank Bldg.,
 Toronto.
 R. E. Stevens, 15 Wellington St. W., Toronto.
 F. H. H. Smith, 1766 Smith Street, Regina.
 J. W. Smith, W. A. Henderson and Co., Winnipeg.
 L. W. Taylor, 215-16th Avenue E., Vancouver.
 F. C. S. Turner, 502 Trust and Loan Building, Winnipeg.
 E. H. Thistlethwaite, 111 Erie Street West, Windsor.
 E. S. Thompson, Prince Albert.
 Stuart Thornton, Stirling Rankin and Saul, Moose Jaw.
 Wm. Leslie Thompson Moose Jaw
 Walter J. Watson Saskatoon
 F. J. Wilson, 801 McCallum Hill Bldg. Regina.
 C. E. Walker, Regina College, Regina.
 Jas. Wood, Swift Current.
 C. E. Wilkinson, 13 Queen Street. Peterborough, England.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
ALBERTA.

BILL,

No 52 of 1910 (Second Session.)

An Act to Incorporate "The Institute of Chartered Accountants of
Alberta."

(Assented to December 16, 1910).

WHEREAS the persons hereinafter named have, by their petition, prayed that it may be enacted as hereinafter set forth, and it is expedient to grant the prayer of the said petition;

Therefore His Majesty, by and with the advice and consent of the Legislative Assembly of the Province of Alberta, enacts as follows:

1. John B. Watson of the Dominion Association of Chartered Accountants; J. B. Sutherland of the Institute of Accountants and Actuaries in Glasgow, Arthur H. Edwards of the Institute of Chartered Accountants of Ontario, all of the City of Calgary; G. Percy Blythe of the Dominion Association of Chartered Accountants; Cecil E. Race of the Chartered Accountants Association of Manitoba; Hugh C. Anderson of the Institute of Chartered Accountants of Ontario; Harry Warren Baldwin of the Dominion Association of Chartered Accountants, and Charles L. Richardson of the Transvaal Society of Accountants Incorporated, and Charles M. Lang of the Institute of Accountants and Actuaries in Glasgow, all of the City of Edmonton, and W. D. Wing of the Institute of Chartered Accountants in England and Wales, of the City of Lethbridge; and A. N. Mouat of the Chartered Accountants Association of Manitoba, of Pincher Creek, qualified chartered accountants, and all other persons who, may from time to time be admitted to membership of the corporation, are hereby constituted a body politic and corporate by the name of "The Institute of Chartered Accountants of Alberta," hereinafter called "the Institute."

2. The objects and powers of the Institute shall be to promote and increase by all lawful means, the knowledge, skill and proficiency of its members in all things relating to the business or profession of an accountant, and to that end to establish classes, lectures, and examinations, and prescribe such tests of competency, fitness and moral character as may be thought expedient to qualify for admission to membership.

Any person residing within the Province at the date of the passing of this Act who is a member of any recognized Institute of Accountants and Actuaries or of any association of Chartered Accountants of the United Kingdom of Great Britain and Ireland or of any Province of the Dominion of Canada shall be entitled to become a member of the Institute upon making application to the Secretary thereof within six months of the date of the passing of this Act.

3. The head office of the Institute shall be in the Province of Alberta at the office of the secretary for the time being, or until such

time as the Institute shall in general meeting decide upon the permanent location of the head office.

4. An annual meeting shall be held for the election of the council of the Institute and for such other business as may be brought before such meeting, at such time and place, and under such regulations and notices as by the by-laws of the Institute shall be determined ; and in default of such election being held at the proper time, the existing council shall continue to act until their successors shall be duly appointed. . .

5. The affairs and business of the Institute shall be managed by a council consisting of not less than six and not more than twenty-one members, to be constituted in such manner as hereinafter provided, and the following persons shall constitute the first council, viz : John B. Watson, J. B. Sutherland, Arthur H. Edwards, G. Percy Blythe, Cecil E. Race and W. D. Wing.

(2) Nominations of candidates for election to the council must be in writing, signed by two members of the Institute, and must be lodged with the secretary at least fourteen days before the date of the annual meeting.

(3) A voting paper containing the names alphabetically arranged, of the persons nominated for election to the council, shall be sent by mail to each member in good standing at least ten days before the date of the annual meeting, and the council shall be elected by means of such voting papers, whether the members voting be present at or absent from the annual meeting.

(4) All vacancies which may occur in the council, by death or otherwise, in the interval between two annual meetings, may be filled by the council.

6. The council shall elect from among its number a president, two vice-presidents, a secretary and a treasurer (the same person being eligible for both the last mentioned offices), and such other officers as may be provided by the by-laws.

7. The objects and powers of the association shall be carried out and exercised under by-laws and resolutions passed by the council ; but every such by-law, unless in the meantime confirmed at a general meeting of the Institute called for the purpose of considering the same, shall have force only until the next annual meeting, and in default of confirmation thereat shall cease to have force ; provided always, that any by-law passed by the council may be repealed, amended, varied or otherwise dealt with by the Institute, at any annual general meeting, or at a special meeting called for the purpose.

8. The council shall have authority from time to time to prescribe a curriculum of studies to be pursued by the students, to determine the fitness and moral character of persons applying to be examined, to prescribe the subjects upon which candidates for certificates of competency shall be examined, to fix standards of skill and competency, to establish a scale of fees to be paid by persons applying for examination, to appoint examiners, define their duties and fix their remuneration, and to make such rules and regulations (not contrary to the provisions of this Act or the by-laws of the Institute) in respect to examinations as may be expedient.

9. The council shall prescribe the conditions upon which persons who have passed the examinations of other corporate bodies having the same or similar objects may be admitted as members of the

Institute, and these conditions shall be reasonable, and subject to amendment from time to time, and to change by order of the Lieutenant Governor in Council.

10. The Institute may establish lectures and classes of students in accounts, and may, subject to the approval of the Lieutenant Governor in Council, make arrangements with any university or college in Alberta for the attendance of students in accounts at such lectures or classes in any such university or college as may come within the course of subjects prescribed by the rules, by-laws and regulations of the Institute, and may, subject as aforesaid, agree with any such university or college for the use of any library or museum or property belonging to or under the control of such university or college, and may affiliate with any such university or college, and may enter into all arrangements necessary for such end, upon such terms as may be agreed upon.

11. The council may adopt a tariff of fees which may be demanded by members of the Institute and may amend the same, and upon the approval thereof by a two-thirds majority of the members, the Lieutenant Governor in Council may direct that the said tariff shall be recoverable in law by a member of the Institute in any court of competent jurisdiction.

12. The Institute may take, purchase and hold any personal property, lands, buildings and hereditaments, for the purpose of the association, and may dispose thereof, but so that the Institute shall apply all its profits, if any, or other income in promoting its objects, and shall not at any time pay any dividend to its members. The provisions of this section shall not prevent the remuneration of members of the council or officers of the Institute for services rendered, out of any surplus remaining after the ordinary expenses of the Institute have been met.

13. The membership of the Institute shall consist of two classes, namely : Fellows and Associates. Every member of the Institute shall have the right during the continuance of his membership to use the designation "Chartered Accountant" and may use after his name in the case of a Fellow the initials "F.C.A.," signifying 'Fellow of the Chartered Accountants,' and in the case of an Associate the initials "A.C.A.," signifying "Associate of the Chartered Accountants."

14. Persons who shall have rendered conspicuous services to the Institute either in the advancement of its educational objects or its general welfare, or by material contribution to the library or other funds of the Institute, may by unanimous vote of the members present at any meeting of the members be elected to honorary membership of the Institute. Honorary membership shall not confer upon any person elected thereto the right to use the designation "Chartered Accountant," or to be elected to the council or to vote.

15. No person shall be entitled to take or use the designation of "Chartered Accountant," or the initials "F.C.A.," "A.C.A.," or "C. A." either alone or in combination with other words, or any name, title or description implying that he is a chartered accountant, or any name, title, initials or description implying that he is a certified accountant or an incorporattd accountant, unless he is a member of the Institute in good standing and registered as such. Any person using a name, title, initials or description contrary to the

provisions of this section shall be liable on summary conviction to a fine not exceeding \$50.00 for each offence.

16. (a) The council shall cause to be kept by the secretary or other officers, a book or register, in which shall be entered in alphabetical order the names of all members in good standing; and the members only whose names are inscribed in the book or register aforesaid shall be deemed entitled to the privilege of membership in the Institute; and such book or register shall at all times be subject to inspection by any person free of charge.

(b) Such register, or a copy of the same duly certified by the secretary or registrar, shall be prima facie evidence in all courts and before all persons that the persons therein specified are members of the Institute in good standing and the absence of the name of any person from such book shall be prima facie evidence that such person is not a member of the Institute.

17. The Institute may by by-law provide for the suspension or expulsion, on complaint and after due inquiry, of any member for misconduct or for violation of the rules or by-laws of the Institute.

18. Nothing in this Act shall affect or interfere with the right of any person not a member of the Institute to practice as an accountant in the Province of Alberta, nor with the right of any person not residing or having an office within this province, to use any designation as accountant.

19. The Lieutenant Governor in Council may at any time order that any or all of the powers contained in sections 8 or 9 of this act be transferred to the University of Alberta, and from and after the passing of such order in council the powers so transferred shall cease to be vested in the Institute but shall become vested and devolve upon the said university.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
ALBERTA.

BY-LAWS.

MEMBERSHIP.

1. Admission to membership of those who have qualified by examination of this Institute shall be by a vote of the members of the Council, there being not less than four members present and voting. The Council may, in their discretion, decline to admit any applicant to membership, for reasons which may appear to them good and sufficient, or for want of satisfactory information. The Council shall also have the power to admit to membership in this Institute, applicants who have qualified for membership in other corporate bodies having the same or similar objects, and whose standard of admission is considered by the Council to be equivalent to that of this Institute.

2. Any member may tender his resignation, which must be in writing, but the same shall not take effect unless or until all arrears of fees have been paid.

3. Any member whose fees are not paid within three calendar months after the date when fees for the next year following have become due and payable, may be deemed to have thereby terminated his membership, and the Council may direct that his name be removed from the list of members. Such person may be re-admitted by the Council upon such terms as they shall approve.

4. Persons who shall have rendered conspicuous service to the Institute, either in the advancement of its educational objects or its general welfare or by material contributions to the library or other funds of the Institute, may by the unanimous vote of the members present at any meeting of the members, be elected to Honorary Membership in the Institute.

5. Honorary membership shall not confer upon any person elected thereto the right to be styled a "Fellow" or an "Associate" or a "Chartered Accountant" or to be elected to the Council or to vote.

6. Chartered Accountants practising in partnership with persons who are not Chartered Accountants shall not use after the title of the firm the initials "C.A.," "A.C.A.," or "F.C.A.," nor describe the partnership or firm as "Chartered Accountants." Any person named in connection with a firm by advertisement or otherwise, shall be deemed a partner for the purpose of this By-Law.

7. No member shall engage in any business, profession or employment, or adopt any form of advertising or procuring business which, in the opinion of the Council, is objectionable in a member of this Institute.

Council.

8. The Council shall consist of seven members of whom not less than two thirds shall be practicing public accountants.

9. Nominations of candidates for election to the Council must be in writing, signed by two members of the Institute, and must be lodged with the Secretary at least fourteen days before the date of the annual meeting.

10. A voting paper containing the names, alphabetically arranged, of the persons nominated for election to the Council, shall be sent by mail to each member in good standing at least ten days before the date of the annual meeting, and the Council shall be elected by means of such voting papers, whether the members voting be present at, or absent from the annual meeting.

11. The Council shall have power to apply the funds of the Institute, after payment of current expenses, in providing rooms for the Institute and furnishing the same, and in the purchase of books and literature pertaining to the profession.

Officers.

12. At the annual meeting in each year, one member of the Institute, not a member of the council, shall be elected Auditor for the ensuing year.

13. The Auditor shall examine all books of account, vouchers, balance sheets and other financial documents and report thereon to the Council at their meeting preceding the annual meeting.

14. Immediately after the election of the Council, the members elected shall meet and elect a President, First and Second Vice-Presidents and a Secretary-Treasurer, from among their number.

The Council may appoint a Librarian, and such officer shall have his term of office, duties and remuneration defined from time to time by a resolution of the Council.

15. Vacancies which may occur in the offices of the Institute, by death or otherwise, between two annual meetings, may be filled by the Council.

16. The President shall preside and preserve order at all meetings of the Institute and Council. In his absence a Vice-President shall exercise the office of President. In the absence of the President and both Vice-Presidents, a Chairman shall be elected by a majority of those present entitled to vote and voting.

17. The Secretary-Treasurer shall conduct the correspondence, notify members of the Institute and Council of all meetings to be held, record proceedings thereat, keep a register of the Fellows and Associates with their addresses, see that the applications for admission and the recommendations accompanying the same are in the form prescribed, make the necessary investigations in respect thereto, send all required notices to the members of the Institute and of the Council, and generally perform such other duties as appertain to the office of a Secretary, and shall receive the fees, subscriptions and moneys accruing to the Institute, dispose of the same as the Council may direct, draw and sign all cheques, keep correct accounts, prepare a statement of receipts and payments for the year ending April 30th, and balance sheet at that date, and generally perform such other duties as appertain to the office of Secretary-Treasurer, or as the council may direct.

18. All cheques shall be countersigned by the President or a Vice-President; and all diplomas and certificates shall be signed by the President (or in his absence by a Vice-President), and by the Secretary-Treasurer and attested by the Seal of the Institute.

Committees.

19. The Council may from time to time appoint Committees for the purpose of facilitating business. The President, Vice-

ALBERTA BY-LAWS

Presidents and Secretary-Treasurer shall be ex-officio members of all Committees.

Meetings.

20. The annual meeting of the Institute shall be held at such time and place as the Council shall from time to time determine. At least one week's notice shall be given of the annual meeting.

21. Meetings of the Institute for the transaction of general business, the reading of papers and the discussion of questions of interest to the profession, may be held whenever the Council shall deem expedient. At least one week's notice shall be given of such meetings.

22. Special meetings of the Institute shall be called by the President after the receipt of a requisition signed by not less than five members. At least one week's notice specifying the special business to be brought forward shall be given of such meetings.

23. Meetings of the Institute may be adjourned from time to time by resolution of a majority of the members present; but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

24. Meetings of the Council shall be held at such times and places as the Council shall determine.

25. The introduction or discussion of political or religious subjects shall not be permitted at any meeting.

26. Five shall constitute a quorum for the transaction of business at all meetings of the Institute, four at all meetings of the Council and a majority at all meetings of Committees.

27. The proceedings at all meetings shall be governed by the rules laid down in Bourinot's Manual, except as the By-laws of the Institute otherwise provide.

28. At any meeting of the Institute two members may demand that the voting upon any question before the meeting shall be by ballot, and the President shall thereupon appoint two Scrutineers for the purpose of taking the vote.

29. At every meeting of the Institute every member in good standing shall have a vote.

Examinations and Articled Clerks.

30. There shall be three examinations for admission to membership in the Institute, namely, the Primary, the Intermediate and the Final.

31. Any person not under seventeen years of age desirous of becoming a member of the Institute and not otherwise qualified by membership in a registered Society as hereinafter provided for, shall enter into articles of clerkship with a practicing member of the Institute of Chartered Accountants of Alberta resident in Alberta. Except in the cases hereinafter provided for, the term of articles shall be four years. Articles must be registered with the Institute within six months of the date thereof, the fee for registration being \$10.00. The Council shall have power to refuse to register any Articles and also to cancel Articles. If the member with whom Articles shall have been entered into ceases for any reason to be a member of the Institute the Articles may be transferred to another practising member of the Institute resident in

Alberta. Articles may also be assigned but any transfer or assignment shall be registered within six months from the date thereof. Registration of Articles or of the transfer or assignment thereof may be made after six months from the date thereof with the approval of the Council.

32. Every person about to become an Articled Clerk shall, before he is articled, or within one year thereafter pass the Primary Examination. In the event of any articled clerk failing to pass the Primary Examination within one year of the date when he shall have been articled his term of articles shall be deemed to have commenced one year previous to the last day of the Primary examinations at which he passes.

33. The Primary examination shall be the matriculation examination of the University of Alberta in the Faculty of Arts and Sciences, or such test as shall be considered equivalent thereto by the Senate of the University.

34. The term of Articles may be less than four years (a) in the case of a graduate of a University of recognized standing in which case the term shall be three years, (b) in the case of a person who has served with a member of a Registered Society, in which case the time so served up to but not exceeding three years shall be deducted from the term to be served in Alberta provided the Council is satisfied that the clerk's conduct was satisfactory during such previous service, (c) in the case of a person of known standing as a public accountant, as hereinafter provided.

35. The Intermediate and Final examinations of the Institute shall be conducted in each year by a Board of Examiners appointed for that purpose by the Senate of the University of Alberta on the joint nomination of the President of the University and the Council of the Institute, and acting under the terms of the agreement between the University and the Institute in that behalf. Applications for the Intermediate and Final examinations must be made on the regulation forms, accompanied by the prescribed fees, at least thirty days before the date set for any examination, to the Secretary of the Institute who shall, within seven days after the closing date for receiving applications, submit them to a meeting of the Council duly called for that purpose.

36. Every articled Clerk shall, after the commencement of the second year and before the completion of the fourth year of his Articles, submit to be examined in the Intermediate examination.

37. The Council may by resolution provide (that any applicant of known standing as a Public Accountant, who shall satisfy the Council that he has been continuously in practice for at least three years prior to the date of his application, shall be exempted from the Intermediate examination and the whole or part of service under articles, or) that any person residing and being employed within the Province, who has passed the Intermediate examination of any Registeral Society, shall be entitled to like exemption.

38. Any articled clerk not under twenty-one years of age who has passed the Intermediate examination at least one year previously, or been exempted therefrom, whose term of articles has expired, his articles discharged and the discharge duly intimated to the Secretary of the Institute, may apply to the Council to be examined in the Final examination. Provided that any clerk whose articles will expire within the Calendar year shall be permitted to

sit for such examination but shall not be admitted to membership in the Institute until completion of his articles.

39. The Council may decline to submit to the Board of Examiners the name of any applicant whom they consider unfit to be admitted to the examination for which he has applied.

40. At least three weeks before the date set for these examinations the Secretary of the Institute shall transmit to the Registrar of the University, for the purpose of these examinations, the names of all proper applicants accompanied by their prescribed fees.

41. Any incorporated Institute or Society which shall satisfy the Council that its standard of examination and conditions of membership, conform to the standard of examination and conditions of membership of this Institute, shall be entitled to be registered accordingly, and shall be designated a "Registered Society."

42. Any person who has passed the Final examination of a registered society and is a member in good standing of such society shall be entitled to become an Associate member of the Institute without further examination, if such person resides, or the firm of which he is a member practices, within the Province.

43. The Council shall make further rules and regulations with respect to the Final examinations as may from time to time seem expedient or necessary and such rules and regulations for the time being shall be read with and form part of this By-Law and shall be published in the Annual Bulletin of the Institute.

Associates

44. Any firm of Chartered Accountants whose Head Office is outside the Province of Alberta, but who maintain an office and practice within the Province, shall be entitled to take and use the designation "Chartered Accountants," and to practice as such, but only if at least one member of such firm and the manager thereof for Alberta are members of the Institute and at least one of such members or said Manager permanently resides in Alberta; provided, that if the said member or Manager of such firm who is a member of the Institute of Chartered Accountants of Alberta should die or resign from such firm, the said firm shall be entitled to continue the use of such designation, provided that another member or Manager of such firm becomes a member of the said Institute within six months of the death or resignation of such member.

Fellows.

45. Any Associate in good standing who has been in practice continuously for the term of five years as a Chartered Accountant and has rendered conspicuous service to the Institute, may by a vote of the Council, be admitted a Fellow, provided, however, that no Associate shall be so admitted who is under thirty years of age.

46. Any Associate in good standing who is not in practice, or who has not been in practice continuously for the term of years applicable to his case, may by a vote of the Council, confirmed by a two-thirds vote of the Fellows, be admitted a fellow.

Fees.

47. Every candidate whom the Council shall refer for examination shall, before such examination takes place, pay the following fees :

For the Intermediate examination	\$20.00
For the Final examination	25.00
For Supplementals, per paper	10.00
For exemptions (except in the cases of equivalent certificates)	5.00

48. Every person who shall be elected an Associate shall thereupon pay a fee of Fifty Dollars (\$50.00).

49. Every Associate who shall be admitted a Fellow shall thereupon pay a fee of Fifty Dollars (\$50.00).

50. An annual membership fee of \$20.00 for resident members and of \$10.00 for non-resident members shall be due and payable on the first day of May for the twelve months then ensuing.

51. The Secretary-Treasurer and Auditors shall receive such remuneration as the Council shall from time to time determine.

Trials and Penalties.

52. Any member, or any aggrieved person, may prefer to the Council in writing, charges of default or misconduct on the part of a member or a student. If in the opinion of the Council, a formal investigation is required, a special meeting of the Council shall be held for that purpose, of which ten days' notice shall be given to all concerned. If the charge be sustained, the offender may be suspended or expelled or otherwise dealt with as the Council may deem expedient.

53. Upon it being made to appear subsequently that for want of sufficient information or other reasonable cause, the finding of the Council upon any charge of default or misconduct was unjust or inequitable, the Council may by resolution to that effect and subject to like restrictions, further investigate the charges and may thereupon confirm, modify or revoke their previous findings as shall seem just.

54. Charges against a member or a student of an infraction of a By-Law may be investigated summarily at any meeting of the Council, of which the member or student charged shall be given one week's notice. If the charges be sustained, the offender may be dealt with as the Council shall see fit.

55. Notices under the three last preceding By-Laws, excepting notices to members of the Council, shall be served personally or sent by registered letter, as the Council shall direct.

56. The Council shall not be bound to take notice of any article or communication which may appear in the public prints or which may be addressed to any member or other person individually or of any verbal statements, affecting the conduct of a member or a student.

Miscellaneous.

57. The forms set forth in the schedule to these By-Laws shall be used in cases to which they are applicable, with such alterations, if any, as the Council may from time to time determine ; and all notes and directions thereon shall be deemed part of the forms and be observed accordingly.

58. In the event of any dispute as to the intent or meaning of any of these By-Laws or of any By-Law which may hereafter be made, the interpretation by the Council shall be final and conclusive.

59. All former By-Laws of this Institute are hereby repealed.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
ALBERTA.

COUNCIL 1921-22.

President	F. M. Harvey
First Vice-President	M. C. McCannel
Second Vice-President	J. H. Williams
F. M. Harvey	Calgary
M. C. McCannel	Edmonton
Cecil E. Race	Edmonton
W. H. A. Thompson	Calgary
Ed. D. C. Thompson	Edmonton
J. B. Watson	Calgary
J. H. Williams	Calgary

Secretary Treasurer :

Cecil E. Race.

Representatives on the Council of the Dominion Association of
Chartered Accountants :

Ed. D. C. Thompson.

F. M. Harvey.

Auditor :

H. O. Patriquin.

Institute Office :

University of Alberta, Edmonton, Alberta.

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF
ALBERTA.

ALPHABETICAL LIST OF MEMBERS, JULY, 1921.

Anderson, Hugh C., ..8703 112th St., Edmonton South
Bagnall, G. L.430 Lougheed Bldg., Calgary.
Blythe, G. P. (Fellow)c-o Cuba Cane Sugar Corp., Habana, Cuba.
Broad, S. J.c-o Marwick, Mitchell & Co., 79 Wall St., New
York.
Bowman, Kenneth ...30 Jackson Bldg., Edmonton.,
Broad, S. J.c-o Marwick, Mitchell & Co., 79 Wall St.,
New York.
Butler, E. B.,c-o Burroughs Adding Machine Co., Detroit,
Mich.
Cameron, Alexander .Lancaster Bldg., Calgary.
Carr, A. H.,1715 14th Ave. W., Calgary.
Collins, J. E.,c-o J. B. Watson, Box 308, Calgary.
Dalziel Peter,P. O. Box 1653, Calgary.
Denby, EdwinRm. 2 Bank of Toronto Bldg., Edmonton.
Dewar, Douglasc-o Marwick, Mitchell & Co., Winnipeg.
Diamond, E.,933 Banning St., Winnipeg.
Dixon, WalterBank of Toronto Bldg., Edmonton.
Dow, WalterBlairforkie, Bridge of Allan, Scotland.
Downs, W. N.c-o Marwick, Mitchell & Co., Winnipeg.
Edwards, A. H. (Fellow), 705 London Bldg., Vancouver.
Edwards, George ...10 Adelaide St. East, Toronto.
FitzGerald, Arthur S.,22, Huron & Erie Bldg., Windsor.
Forson, H. G.c-o Canada Permanent Mtge. Corp., Regina.

- Gardner, R. W.Lethbridge, Alberta.
 Gemmell, R. H. G. ...c-o Barrow, Wade, Guthrie & Co.,
 Philadelphia.
 Gorse, Harold408 Tegler Bldg., Edmonton.
 Gould, W. W.614 Tegler Bldg., Edmonton.
 Gray, J. Trainc-o P. Burns & Co., Ltd., Calgary.
 Gregory, E. T.P. O. Box 206, Windsor, Ontario.
 Harvey, Jno.c-oMarwick, Mitchell & Co., Vancouver.
 Harvey, F. M.....501 Lougheed Bldg., Calgary .
 Henderson, Jas. A. ...309 Tegler Bldg., Edmonton.
 Hill, T. Percyc-o Price, Waterhouse & Co.. 145 St. James
 St.. Montreal.
 Hindsley, Normanc-o P. Burns & Co., Ltd., Calgary.
 Howard, H. E.430 Lougheed Bldg., Calgary.
 Hutton, D. R.27 Canada Life Bldg., Calgary.
 Irwin, E. A.287 Upper Santa Rosa Ave., Sausalito,
 California. "
 Ireland, Wm.236 Eighth Ave. W., Calgary.
 Jones, Basil607 Tegler Bldg., Edmonton.
 Johnstone, W. S.431 Tegler Bldg., Edmonton.
 Lang, C. M.c-o Department of Agriculture, Government
 Bldgs., Edmonton.
 Maxwell, G. A.736 W. 181st St., New York City.
 McCannel, D. A.217 Dominion Bank Bldg., Calgary
 McCannel, M. C.210 McLeod Blk., Edmonton.
 McNab, J. C.547 West 186th St., New York City.
 Mitchell, S. R.c-o Marwick, Mitchell & Co., Calgary.
 Moss, Albert309 White Bldg., Seattle.
 Mouat, A. N.Comptroller-General, Victoria, B. C.
 Nash, A. E.502 Brunswick Ave., Toronto.
 Nash, Hugh H.740 Tegler Block, Edmonton.
 Nicholl, John S.12 Belsize Road, London, N. W. 6, England.
 Norman, H. G.c-o Parrish & Co., 1500 Walnut St.,
 Philadelphia.
 Oliver, F. M.23 Becker Block, Medicine Hat.
 Paterson, R. J. R. ...P. O. Box 805, Lethbridge, Alta.
 Patriquin, H. O.431 Tegley Bldg., Edmonton.
 Race, Cecil E.University of Alberta, Edmonton.
 Reed, Henry K.Canada Life Bldg., Calgary.
 Richardson, C. L. ...604-5 Agency Bldg., Edmonton.
 Richardson, Erie1003 Lancaster Bldg., Calgary.
 Robertson, D. Binny .501 Lougheed Bldg., Calgary.
 Robertson, Wm.9908 88th Avenue, Edmonton S.
 Sells, John F. C.c-o Price, Waterhouse & Co., Chicago, Ill.
 Stevens, A. L.216 Lancaster Bldg., Calgary.
 Sterns, P. W.3 Albany Apts., Edmonton.
 Stuart, Geo. A.c-o Scott & Stuart, Calgary
 Sutherland, Jas. B. .430 Lougheed Bldg., Calgary.
 Symes, H. R.c-o Marshall, Wells & Co., Duluth, Minn.
 Thomson, Ed.D. C. .408 Tegler Bldg., Edmonton
 Thompson, W. H. A. 815 Herald Bldg., Calgary.
 Thompson, J. C.501 Lougheed Bldg., Calgary.
 Walker, H. H.Imperial Bank Bldg., Edmonton.
 Watson, J. B.P. O. Box 308, Calgary
 Watson, J. W.1003 1st National Bank Bldg., San Francisco
 Weaver, S. T.32 Cypress St., Point Grey, B. C.
 Williams, J. H.35 Lougheed Bldg., Calgary.
 Woodard, James481 Rathgar Ave., Winnipeg.

THE NEW BRUNSWICK INSTITUTE OF CHARTTRED
ACCOUNTANTS.

INCORPORATED 6 GEORGE V., 1916 CAP. LIII.

Passed 29th April, 1916

Be it Enacted By The Lieutenant-Governor and Legislative
Assembly, As Follows :

1. Paul F. Blanchet, Wilson A. Loudoun, Robert A. McIntyre and such other persons as may become associated with them, are hereby constituted a body corporate, under the name and style of "The New Brunswick Institute of Chartered Accountants."

2. The objects of the Institute shall be :

(a) To establish a high standard of qualification and fitness for the profession of accountancy ; to provide a special organization for qualified accountants and auditors ; and to do all such things as from time to time may become necessary to advance the interests and welfare of the profession of accountants and auditors.

(b) To unite the members of the profession into one specific body ; to provide for a better definition and protection of the profession ; and to insure a supply of educated men of special scholarly and moral qualifications, and responsibility by a system of examination and the issue of certificates.

(c) To promote and foster in commercial circles, a higher sense of the importance of systematic and correct accounting and modern business methods, and to encourage a close observance of all commercial laws as provided by statute for the regulation, conduct and governance of business transactions, particularly the Joint Stock Companies' Act of New Brunswick ; to endeavor to bring about a greater degree of efficiency in those engaged in Bookkeeping.

(d) To provide opportunities for intercourse amongst the members ; to give facilities for the reading of papers, and the delivery of lectures, and for the acquisition and dissemination of useful information connected with the profession, and to encourage improved methods in Book-Keeping.

(e) To watch over, promote and protect the mutual interests of the members.

(f) To assist necessitous members and the widows and children, or other dependent kindred of deceased members ; to act as treasurers and distributors of any benevolent fund, or funds, which may be contributed by members or others for these purposes or any of them.

(g) To acquire, or purchase, or lease and to have, hold, and dispose of, subject to the provisions of any Act of incorporation that may be obtained, any buildings to be used as an institute, college or lecture rooms, or any property real or personal, for the advancement of the above objects or any of them.

(h) To do all such other lawful things as are incidental or conducive to the above objects or any of them :

3. All members in good standing, of the Dominion Association of Chartered Accountants, or of any existing provincial incorporated institutes and associations, or of any chartered institutes or

associations of the British Empire, recognized by the Dominion Association of Chartered Accountants, who upon application shall be approved by the Council, shall be eligible for membership, also all such candidates who shall have passed the examinations, tests and requirements provided by the council and examiners.

4. The officers of the Institute shall consist of a president, vice-president, and secretary-treasurer, who shall be elected by ballot at each annual meeting of the Institute, but the ballot may be dispensed with and open voting substituted by the unanimous vote of the meeting.

5. The affairs and business of the Institute, shall be managed by a council consisting of not less than three members of the Institute, to be constituted in such manner as shall be provided by by-law at the annual meeting of the Institute.

6. The objects and powers of the Institute, shall be carried out and exercised under by-laws and regulations passed by the council, but such by-laws, unless in the meantime confirmed at a general meeting of the Institute called for the purpose of considering same, shall have force only until the next annual meeting and in default of confirmation thereat shall cease to have force; provided always that any by-law passed by the council may be repealed, amended, varied or otherwise dealt with by the Institute, at any annual general meeting or at a special general meeting called for the purpose.

The council shall from time to time have power to make rules, regulations or by-laws respecting the following matters and which shall be subject to Section No. 6 as set forth above:

(a) The powers and duties of officers of the Institute; the use and management of the property of the Institute.

(b) The fees payable to the Institute for examinations, entrance fees, annual subscriptions, and such matters, and upon such occasions as the council may determine, and the amount and manner of payment of all such fees.

(c) The meetings of the council; the meetings of the Institute.

(d) The management and expenditure of all moneys belonging to the Institute.

(e) The admission of accountants as members of the Institute.

(f) All matters relating to the discipline of members of the Institute.

(g) The examination of applicants for membership, and upon the applicant successfully passing the examinations, the granting of a certificate as a member of the Institute, authorizing him to practice and be known as a Chartered Accountant. The examination to be upon the following subjects and such others as shall be established from time to time by the council, and examiners:

Commercial Mathematics.

Book-Keeping:—The design, classification and correct keeping of accounts.

General Accounting:—The constructive, recording and analytical branches of accountancy.

Auditing :—The detection of fraud in accounts, including errors of Commission, Omission and Principle. The varification of the entire records of an enterprise, and the setting forth of correct statements, showing true exhibits of its financial standing and operations. ,

Commercial Law :—Elements of Commercial Law of the Maritime Provinces, and the elements of General Commercial Law and Business Practice.

(h) The appointment of examiners to conduct such examinations; the standard to be established and attained thereat,¹ and all such matters relating to the conduct of such examinations.

(i) The times and places for holding such examinations.

(j) The publication of all rules, regulations and by-laws of the Institute.

(k) The general management of the affairs of the Institute and all other purposes connected therewith.

8. The Institute may take, acquire, purchase or lease, have, hold and dispose of any personal property, real estate, buildings, and hereditaments for the purpose of the Institute, to the value of ten thousand dollars, and may sell, mortgage or otherwise dispose of the same as it may deem fit.

9. The corporation shall have power to make contracts for the purposes of the Institute, and to use for and collect all fees, subscriptions. dues and assessments, and all moneys of whatever kind that may become due to the corporation at any time after the passing of this Act.

10. The corporation is hereby empowered to assess itself for any extraordinary expense, that may be deemed necessary to further the interests of the Institute, at any meeting called for the purpose, by a two-thirds vote of the members present at such meeting.

11. No member of the corporation shall be liable in his estate or person for debts of the corporation, but all property of said corporation shall be liable for the debts of said corporation.

12. True accounts shall be kept by the secretary-treasurer of the sums received and expended by the Institute, and the matter in respect of which such receipts and expenditures takes place, and of the property, credits and liabilities of the Institute, and, subject, to any reasonable restriction as to time and place, and the manner of inspecting and auditing the same that may be imposed by the rules of the Institute for the time being, the books which shall be in charge of the secretary, shall be open to the inspection of the members. Once at least in every year the accounts of the Institute shall be examined, and the correctness of the balance sheet ascertained by one or more properly qualified auditor or auditors.

13. The income and property of the Institute, shall be applied solely towards the promotion of the objects of the Institute as set forth in this Act, and no portion thereof shall be paid or transferred directly or indirectly, by way of dividend, bonus, or otherwise, howsoever, by way of profit to the members of the Institute, provided that nothing shall prevent the payment in good faith of remuneration to any officers or servants of the Institute, or to any member of the Institute, or other persons, in return for any services performed for or rendered to the Institute, nor prevent the payment of interest at a rate not to exceed six per cent. on money borrowed.

14. The first general meeting of the Institute shall be held during the year one thousand nine hundred and sixteen, at such time and place, and upon such notice as the council may decide. Subsequent general meetings shall be held as the by-laws of the Institute may provide, but at least once a year. At any general or special meeting members may be represented by proxy, but no proxy shall be exercised by a person who is not a member of the Institute.

15. The Institute may affiliate with any Chartered Institute or Association having the same or similiar objects.

16. If any person ceases for any cause whatsoever to be a member of this Institute, he shall not have, nor shall his representative have, any interest in or claim against the funds and property of the Institute except as may be provided by by-law.

17. Any qualified person, being over the age of twenty-one years, of good moral character, who shall have received a certificate from the Council of the Institute, in accordance with the provisions of this Act, shall be styled and known as a Chartered Accountant, and may use after his name, if he is a "Fellow" the initials "F. C. A.," signifying "Fellow of the Chartered Accountants," and if he is an "Associate" the initials "A. C. A.," signifying "Associate of the Chartered Accountants."

18. The Institute, in general or special meeting assembled, may make by-laws for the carrying out of its objects, and exercising the powers of this Act, conferred upon it.

19. No person shall be entitled to take or use the designation Chartered Accountant, or the initials F. C. A. or C. A., or A. C. A., or description, implying that he is a Chartered Accountant, or any name, title, or description or initials implying that he is a certificated or incorporated accountant, unless he is a member of the Institute in good standing and registered as such, or a member of any other Institute of any Province of the Dominion of Canada, or any member of the Dominion Association of Chartered Accountants, or of any chartered or incorporated Institute of the British Empire, or any Association or Society of professional accountants, recognized by statutory enactment in any State of the United States of America, provided that he be a member in good standing in his own Association.

20. Any person who shall contravene any of the provisions of Section No. 19 of this Act, shall incur a penalty not exceeding One Hundred Dollars, recoverable under the provisions of the New Brunswick Summary Convictions Act, and such penalty shall be payable to the Secretary-Treasurer of the said Institute of Chartered Accountants.

21. This Act may be cited as the "Chartered Accountants Act."

THE NEW BRUNSWICK INSTITUTE OF CHARTERED
ACCOUNTANTS.

BY-LAWS

MEMBERSHIP.

1. Any person, not under twenty-one years of age, who shall be certified by two members of the Institute as being of good moral character and habits, and who shall have satisfied the Examination Committee and the Council as to his professional attainments and experience, shall, on payment of fees and signing to Constitution, be entitled to become an Associate member of the Institute.

2. Any member whose fees are not paid within three calendar months after the date when such fees have become due and payable, may be suspended by the Council from the privileges of membership. The payment of such fees shall (subject to the provisions of the by-law next following) re-instate a suspended member. ,

3. Any member whose fees are not paid within three calendar months after the date when fees for the year next following have become due and payable, may be deemed to have thereby terminated his membership, and the Council may direct that his name be removed from the register. Such person may be readmitted upon such terms as the Council shall approve.

4. Members practicing in partnership with persons who are not members shall not permit the partnership or firm to be described as "Chartered Accountants." Any person named in connection with such partnership by advertisement or otherwise shall be deemed a partner for the purpose of this by-law.

5. No member shall engage in any business, profession or employment, or adopt any form of advertising or procuring business which in the opinion of the Council is objectionable in a member of the Institute.

6. All persons becoming members of the Institute shall subscribe to endorse and accept the by-laws of the Institute for the time being in force, as being binding upon them as members of the Institute.

LECTURES AND CLASSES.

7. Educational Institutions having a department devoted to the study of accounts may become affiliated with the Institute for the purpose of conducting lectures and classes for registered students and for such other purposes as the Council may from time to time prescribe.

8. Every Educational Institution so affiliated with the Institute shall furnish from time to time, so long as such lectures and classes are continued, such information respecting the same as will enable the Council to determine the efficiency thereof, having regard to the requirements of the examinations of the Institute; and shall also satisfy the Council as to the competency of the instructors in charge of such lectures and classes.

OFFICERS.

9. At the annual meeting in each year, one or more members of the Institute, not members of the Council, shall be elected Auditors for the ensuing year.

The Auditors shall examine all books of account, vouchers, balance sheets and other financial documents, and report thereon to the members at the annual meeting, and to the Council at least three days before the date of the annual meeting.

10. The President shall preside and preserve order at all meetings of the Institute and Council. In his absence a Vice-President shall exercise the Office of President. In the absence of the President and both Vice-Presidents, a Chairman shall be elected by a majority of those present entitled to vote and voting.

11. The Secretary-Treasurer shall conduct the correspondence, notify members of the Institute and Council of all meetings to be held, record proceedings thereat, keep a register of the members as required by the Act of Incorporation with their addresses, see that the applications for examinations and for membership, and the references accompanying the same are in the form prescribed, make the necessary investigations in respect thereto, send all required notices to the members of the Institute and of the Council, and perform such other duties as the Council may direct.

12. The Secretary Treasurer shall receive the fees, subscriptions and other moneys accruing to the Institute, dispose of the same as the Council may direct, draw and sign all cheques, keep correct accounts, prepare proper financial statements at the termination of each Institute year, and perform such other duties as the Council may direct.

13. All cheques shall be countersigned by the President or Vice President and all diplomas and certificates shall be signed by the President (or in his absence by a Vice-President), and by the Secretary and attested by the seal of the Institute.

COMMITTEES.

14. The Council may from time to time appoint Committees for the purpose of facilitating business. The President, Vice-President and Secretary-Treasurer shall be ex-officio members of all Committees.

15. The Council shall appoint a Committee on membership, whose duty it shall be to report to the Council when required, upon all matters affecting the conduct and standing of members and students.

16. The Council shall appoint a Committee on Examinations, whose duty it shall be to report to the Council when required upon all matters affecting the fitness and moral character of persons applying to be examined, to make the necessary arrangements for examinations, to appoint examiners and to report to the Council the results of the examinations of the Institute.

MEETINGS.

17. The Annual Meeting of the Institute shall be held on the second Monday in June each year unless the said second Monday be a statutory holiday, then on the following Monday at such time and place as the Council shall from time to time determine. At least one week's notice shall be given of the Annual Meeting.

18. Meetings of the Institute for the transaction of general business, the reading of papers and the discussions of questions of interest to the Profession, may be held whenever the President of the Council shall deem expedient. At least one week's notice shall be given of such Meetings.

19. Special Meetings of the Institute shall be called by the President after the receipt of a requisition signed by not less than three members. At least one week's notice specifying the special business to be brought forward shall be given of such Meeting.

20. Meetings of the Institute may be adjourned from time to time by resolution of a majority of the members present; but no business shall be transacted at any adjourned Meeting other than the business left unfinished at the Meeting from which the adjournment took place.

21. Meetings of the Council shall be held when required at such time and place as the President shall determine. At least three days' notice shall be given of all Meetings of the Council.

22. Meetings of Committees shall be called by the Chairman thereof, respectively, upon notice from the Secretary-Treasurer of the matters referred to them by the Council. Committees shall report to the Meeting of the Council next following that from which the reference was made. At least three days' notice shall be given of all Meetings of Committees.

23. The introduction or discussion of political or religious subjects shall not be permitted at any Meeting.

24. Three shall constitute a quorum for the transaction of business at all Meetings of the Institute, three at all Meetings of the Council and three at all Meetings of Committees.

25. At any Meeting of the Institute two members may require that the voting upon any question before the Meeting shall be by ballot, and the President shall thereupon, appoint two Scrutineers for the purpose of taking the vote.

26. At any Meeting of the Institute every member present and in good standing shall have a vote

EXAMINATIONS.

27. The Council shall hold examination in the Month of May, of each year in the City of St. John, which shall be designated respectively, the Primary, Intermediate and Final examinations.

28. Notices shall be advertised in the Royal Gazette or a daily St. John paper at least one month before examinations are to be held, and all candidates for examinations shall make application for such on the prescribed Form at least ten days before, paying at the time of application, the required Fee.

PRIMARY EXAMINATIONS.

29. The Primary Examinations shall be conducted in the following subjects or such variations or modifications thereof as the Council may from time to time deem expedient:—

(1) Business correspondence, including Composition, Spelling, Punctuation and Penmanship.

(2) Arithmetic.

(3) Bookkeeping.

(4) Bills of Exchange Act.

30. Any person residing and employed within the Province, who has passed the Primary Examinations of any Registered Society shall be entitled to exemption from the Primary Examinations.

31. The Council shall make such further rules and regulations with respect to the Primary Examinations and exemptions therefrom as may from time to time seem expedient or necessary, and such rules and regulations for the time being shall be read with and form a part of this by-law.

INTERMEDIATE EXAMINATIONS.

32. Any person who has passed the Primary Examination, or who has been exempted therefrom by the Council may apply to the Council to be examined in the Intermediate Examination, provided, however, that no person shall be so examined who is under twenty years of age nor within one year after passing his Primary Examination or equivalent examination; and provided further, that no person shall be so examined unless or until he shall have a term of experience at accounts satisfactory to the Council.

33. The Intermediate Examinations shall include the following subjects :—

- (1) Arithmetic.
- (2) Bookkeeping and Accounts.
- (3) Auditing.
- (4) Mercantile Law.
- (5) Statute Law.

34. Any person, residing and employed within the Province, who has passed the Intermediate of any Registered Society, shall be entitled to exemption from the Intermediate Examination.

35. The Council shall make such further rules and regulations with respect to the Intermediate Examinations and exemptions therefrom as may from time to time seem expedient or necessary and such rules and regulations for the time being shall be read with and form a part of this by-law.

FINAL EXAMINATIONS.

36. Any person who has passed the Intermediate Examinations, or who has been exempted therefrom by the Council may apply to the Council to be examined in the Final Examinations, provided however, that no person shall be so examined who is under twenty-one years of age, nor, unless exempted therefrom, within one year after passing his Intermediate Examination; and provided further that no person shall be so examined unless or until he shall have had a term of experience at accounts satisfactory to the Council.

37. The Final Examinations shall include the following subjects :—

- (1) Bookkeeping and Accounts (2 papers).
- (2) Auditing (2 papers).
- (3) Business Investigations.
- (4) Statute Law.

38. To pass the Preliminary, Intermediate and Final Examinations the Candidates must obtain on each paper on which he is required to write, at least 50 per cent, and an aggregate of at least 60 per cent of the total marks given on the papers on which he writes.

FEEES.

39. Every candidate whom the Council shall refer for examination shall, before such examination takes place, pay the following fees :—

For the Primary Examination	\$5.00
For the Intermediate Examination	10.00
For the Final Examination	20.00

40. Every person who shall be admitted an Associate shall thereupon pay an entrance fee of Twenty Dollars (\$20.00).

41. Every Associate who shall be admitted a Fellow shall thereupon pay a fee of Fifty Dollars (\$50.00).

42. Every Educational Institution admitted to affiliation shall thereupon pay a fee of Fifty Dollars (\$50.00).

43. The annual subscription from members practising or residing in the Province shall be \$5.00 payable before June 1st in each and every year.

44. The Secretary-Treasurer, Examiners and Auditors shall receive such remuneration as the Council shall from time to time determine.

TRIALS AND PENALTIES.

45. Any member or any aggrieved person, may prefer to the Council in writing, charges of default or misconduct on the part of a member or a student. If in the opinion of the Council a formal investigation is required, a special Meeting of the Council shall be held for that purpose, of which ten days' notice shall be given to all concerned. If the charges be sustained, the offender may be dealt with as the Council shall see fit.

46. Upon it being made to appear subsequently that for want of sufficient information or for other reasonable cause, the finding of the Council upon any charge of default or misconduct was unjust or inequitable, the Council may by resolution to that effect and subject to like restrictions further investigate the charges and may thereupon confirm, modify or revoke their previous findings as shall seem just.

47. Charges against a member or a student of an infraction of a by-law may be investigated summarily at any Meeting of the Council, of which the member or student charged shall be given one week's notice. If the charges be sustained, the offender may be dealt with as the Council shall see fit.

48. Notices under the three last preceding by-laws, excepting notices to members of the Council, shall be served personally or sent by registered letter, as the Council shall direct.

49. The Council shall not be bound to take notice of any article or communication which may appear in the Public prints or which may be addressed to any member or other person individually, or of any verbal statements, affecting the conduct of a member or a student.

MISCELLANEOUS.

50. The forms set forth in the Year Book of the Ontario Institute—Pages 33, 34, 35 and 36 shall be used in cases to which they are applicable, with such alterations, if any, as the Council may from time to time determine; and all notes and directions thereon shall be deemed part of the forms and be observed accordingly.

51. In the event of any dispute as to the intent or meaning of any of these by-laws, or of any by-law which may hereafter be made, the interpretation by the Council shall be final and conclusive.

THE NEW BRUNSWICK INSTITUTE OF CHARTERED ACCOUNTANTS.

MEMBERSHIP.

R. A. MacIntyre,	President,	St. John
A. P. MacIntyre,	Vice-President,	St. John
W. A. Loudoun,	Secretary,	Fredericton
P. F. Blanchet,		Rothesay
A. E. Cox,		St. John
H. G. Hoben,		Fredericton
J. C. Pitt,		St. John

PRINCIPLES OF PROFESSIONAL CONDUCT FOR ACCOUNTANTS

General Principles:

In both his professional and business relations the Chartered Accountant should consider himself personally responsible for the character of the enterprises with which he is professionally connected.

Before becoming professionally related to any enterprise, he should satisfy himself that it is of a legitimate character. If afterwards he ascertains that the enterprise is not a legitimate one, he should sever his connection as soon as possible.

The Chartered Accountant should never allow his name to be used for exploitation purposes, unless, through training and experience he is able to exercise competent judgment, and before consenting to the use of his name, he should see that all statements made use of in the prospectus are in accordance with facts which he has verified.

Relations of the Chartered Accountant to his Clients:

The Chartered Accountant should consider the protection of his Client's interests as his first obligation, and should avoid every act that would be contrary to his duty. He should not accept compensation, directly or indirectly, from more than one side or party interested in the same matter.

Accountants should not accept appointments while financially interested in a rival concern, without the fact being disclosed to the new client and his assent being obtained.

Relations of the Chartered Accountant to the General Public:

The Chartered Accountant should endeavor to assist the investing public to a fair and general understanding of accounts of

Public Companies, to discourage wrong or exaggerated statements regarding the position of Companies, published in the press or otherwise, especially if those statements are made for the purpose of, or may lead to inducing the public to invest or participate in unworthy schemes.

In giving expert testimony before the Courts or Arbitrators, the Accountant should confine himself to brief and clear statements as to the matter in controversy. He should avoid pleading on one side or the other.

Relations of the Chartered Accountant to His Fellow Members:

The Accountant should not seek a position held by another member of the Institute in which he has a membership.

He should decline to make offers to do work for a stated sum until such time as he has had sufficient data from personal experience to establish the time that would be required to perform the services required. On no account should he enter into competition with fellow members to secure work by lowering of fees.

Where accountancy work is in charge of a member of the Association, no other member should undertake any part of the work except with the consent of or in co-operation with the Accountant who had charge of the work before, unless the latter's connection with it has already terminated.

CANADA

With sober faith in her great destiny Canada cognizant of her vast material resources and with a people whose national characteristics are an earnest of progress the Dominion, at the moment, faces the immediate future with misgiving. The man who is honest with himself and with his neighbor no more turns his back upon that fact than he allows himself to be unduly alarmed by it. The world to-day is passing through a period to which the term "reconstruction" has somewhat loosely been applied but which in the main is one of transition and readjustment. The man on the street calls it "getting back to normal". In some of the war harried countries of Europe this slow transition from war conditions is proving a painful process accompanied by a serious degree of industrial stagnation. In Canada, with its commercial and industrial machinery improved and tested by the demands of war, the problem is largely one of getting safely down to new price levels. How will Canada solve it?

Coming down a ladder is always harder than climbing it, and a few folk are bound to miss a rung or two, or perhaps the rest of the ladder, but the average man does not need to be told that the stage is not set for a depression in Canada. He knows that there has not

been over-production. He is pretty well aware of the fact that the supply of goods in practically every industry falls short of the real needs of the people. He knows that the farms of the Dominion were never so productive, and that its natural wealth has scarcely been touched.

But just as surely he knows that something is lacking. He reads his newspaper. He ruefully realizes the relation of unemployment relief to the tax rate. He probably blames the manufacturer for it. But the manufacturer can no more bring about a business and industrial revival than the worker. The merchant is as helpless as the manufacturer. The one man who can keep the wheels of industry turning and wipe out the bread line is the average man himself.

The time for economy is not past—but it must be the right sort of economy. The man to day denies himself and his family that for which he is well able to pay is as unpatriotic a man as he who in war years refused to shape his buying to the imperative needs of the hour. The surest way to bring depression to Canada is by a cessation of buying. The "buying strike" served its purpose. It brought prices down. But having served its purpose it is a weapon to be discarded. If the stock on the shelves of the retailer does not move the wheels of the factory will not turn, the workman cannot work, nor will he have money to buy the goods of the merchant—and the discouraging circle is complete.

Canada to-day needs the optimist who believes that he holds his destiny in his own hands to shape as he will, who believes that the future is what we make it. If we have hard times in Canada it will be because we have not willed it otherwise. If common sense replaces hysteria and confidence crowds doubt and hesitation to the wall, if co-operation and a spirit of concession take the place of sullen refusal in the settlement of inevitable adjustments in wages if earnest individual effort inspired by a realization of individual responsibility takes the place of indifference then the next few months will see industry take up the slack, commerce again get its stride, and a new era of prosperity inaugurated.

THRIFT

What is thrift? This word has taken on a new meaning, just as many other words and things have done since the great war was begun in 1914. A new definition of the word is conservation, which is now enjoying the vogue that efficiency enjoyed a few years ago. Thrift masquerades in many ways. It is the capable management of affairs either in the office or home, in such a manner that the value of one's possessions is being constantly increased.

THE CANADIAN CHARTERED ACCOUNTANT

OFFICIAL ORGAN OF THE
DOMINION ASSOCIATION OF CHARTERED
ACCOUNTANTS

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DOMINION ASSOCIATION OF CHARTERED ACCOUNTANTS

Summary of Proceedings of the Nineteenth Annual Meeting Held in
British Columbia August, 1921

OPENING SESSION, TUESDAY, AUGUST 23rd. 10 a.m.

The President, George E. Winter, F.C.A. (B.C.) called the Meeting to order, and introduced the acting Mayor of Vancouver, Alderman Owen, and the Hon. J. W. de B. Farris, Attorney-General of British Columbia, who in turn addressed the Members, extending to them the hearty welcome of both City and Province.

G. F. Gyles, as President of the Institute of Chartered Accountants, voiced the hopes of that Institute that success would attend the Convention, and that the delegates and guests would have a thoroughly enjoyable stay in British Columbia.

A. C. Neff (Ont) acknowledged, on behalf of the visitors, the speeches of welcome, F. C. Gilbert (Man) also replying.

The guests then retired, and the business of the Convention was entered upon.

The President presented his address, as printed elsewhere in these columns and a Committee was appointed to report thereon.

The Report of the Committee on Uniformity of Standards was presented, its adoption being postponed until after the presentation of Mr. Geo. Edwards address on "The Educational Responsibilities of Chartered Accountant Societies."

The Financial Report was presented and adopted, some discussion ensuing as to the desirability of a change in the fiscal year end, It was decided that the change should not be made, but that the Financial Report which, to date, has consisted of a "Receipts and Disbursements" statement alone, should be accompanied in future by

a Balance Sheet, future expenditure belonging to the current period to be estimated.

The Report of the Magazine Committee was presented and adopted, and a hearty vote of thanks for its efforts was tendered to the Committee, which was re-appointed.

The Report of the Legislation and General Purposes, Committee was presented, discussion proceeding until adjournment.

1 p. m. Luncheon Tendered by the Institute of Chartered Accountants of British Columbia to Members of the Dominion Association.

G. F. Gyles, (B. C.) in the Chair.

Mr. W. H. Malkin, a prominent Vancouver merchant and President of the Board of Trade, was introduced, and addressed the Members, his address appearing elsewhere in this issue.

Mr. E. G. Shorrock (Seattle) representing the American Institute of Accountants, in a speech enlivened by considerable humor, voiced the cordial wishes of that body.

SECOND SESSION AUGUST 23rd. 2 p.m.

After some further discussion and amplification, the Report of the Legislation and General Purposes Committee was adopted, and a vote of thanks was tendered the Committee. Following upon this, it was decided that the Committee be increased by the addition of three new Members, one representing jointly British Columbia and Alberta, one Saskatchewan and Manitoba and one the Eastern Provinces.

Mr. Geo. Edwards was invited by the President to introduce his Address on "The Educational Responsibilities of Chartered Accountants' Societies" a printed copy of which was in the hands of each Member. This he did, explaining, in the course of his remarks, the genesis and development of the idea which has resulted in the establishment, by the Ontario Institute, of a correspondence course of instruction obligatory on its students.

Emphasis was laid on the fact that this Instructional Course had its beginning in the realization that examination tests are not in themselves sufficient, but that there should be some measure of supervision over the actual studies of articulated or registered pupils.

The invitation to the other Provincial Societies to avail themselves of the instruction for their Students (which invitation has been transmitted earlier by letter) was renewed.

Considerable discussion ensued, delegates from Provinces other than Ontario objecting mainly to the obligatory provisions. Mr. Edwards explained that Ontario simply wished to offer to the other Societies the facilities for instruction which it had created primarily

for its own students, leaving to those other Societies the framing of local regulations.

The following resolution was passed :—

“That the Dominion Association endorses heartily the idea and principle behind the Ontario Educational Courses and recommends that the Provincial Institutes investigate the Courses with a view to utilizing them so far as their own interests permit.”

The Report of the Committee on Uniformity of Standards was adopted, the Committee being re-appointed and a hearty vote of thanks for its work tendered by the Members.

A telegram received from the President of the American National Association of Cost Accountants, expressing cordial wishes for the success of the Dominion Convention and conveying an invitation to the Members to attend the Annual Convention of Cost Accountants, was read, and the Secretary was instructed to send a suitable reply in acknowledgement.

The Association of Accountants in Montreal announced its intention if the Dominion Association concurred, of holding future examinations in the fall, instead of in the spring of the year as heretofore. Various other Provinces reported that their Examinations had been changed to the fall, but, while the apparent tendency towards unanimity was seen to be of advantage in the case of future adoption of uniform examinations, the time of holding examinations, for the present, was held to be a question which each Provincial Institute should decide for itself.

TUESDAY, AUGUST 23rd, EVENING

On the evening of Tuesday, 23rd August, 1921, a Banquet was held at the Hotel Vancouver. (Geo. E. Winter, President, in the chair).

After the singing of the National Anthem, and the drinking of a toast to the King, Mr. George Edwards proposed a toast to the guests, Alderman Owen, of Vancouver, Messrs Shorrock, Clowes and McIntosh (U.S.A.) replying.

Musical items were rendered by Mrs. McCallum and Captain Foster, the latter a member of the B.C. Institute.

The Banquet being concluded with the singing of the National Anthem, an informal dance was enjoyed.

THIRD SESSION, AUGUST 24th, 1921, 10.30 a.m.

The Reports of the Constituent Societies :—Quebec, Ontario, Manitoba, Nova Scotia, British Columbia, Saskatchewan and Alberta—were presented in turn, that of New Brunswick, whose representative was not able to attend the Convention, arriving by mail after the conclusion of the Meeting.

Adoption of the Reports was duly moved and carried.

Mr. George Edwards, speaking of the number of Provincial Societies which hold, or contemplate holding their examinations in the fall, remarked on this tendency towards unanimity as a material contribution towards the hoped-for Uniformity of Standards and practice.

In view of the increase in membership brought about by the admission to the Dominion Association of non-resident members of the Constituent Societies, the question arose as to representation of the Societies on the Dominion Council. The President reported that the question had been discussed by the Council, and their resolution on the subject was presented to the Meeting as follows :—

“That the question of numerical representation on the Council be referred to the incoming Council, the present interpretation being, that the number of members in a Provincial Society be the number whose fees are paid by that Provincial Society.”

A further resolution dealing with By-Laws was reported as passed by the Council :—

“That the By-laws be interpreted to read, that Constituent Societies shall pay Dominion Association annual dues for all of their Members resident outside of Canada, irrespective of the number of Provincial Societies to which those Members may belong.”

The President called on the Chairman of the Registration Committee, who reported attendance as follows :—

Of the Washington Society of Certified Public Accountants, six members, of whom one, jointly with a Member of the New York State Society (the latter a member also of the Dominion Association) represented the American Institute of Accountants.

Montreal Association—Six Members.

Ontario Institute—Five Members.

Manitoba Institute—Ten Members.

Saskatchewan Institute—Four Members.

Nova Scotia Institute—One Member.

Alberta Institute—Four Members.

British Columbia Institute—Thirty Seven Members.

a total of 73 persons, of whom seven were visitors from kindred Societies in the United States.

The Report of the Committee on the President's Address was presented as follows : and adopted :—

REPORT ON PRESIDENT'S ADDRESS

To the Members of the D,A,C,A.

Gentlemen :—

We, the Committee appointed to consider the President's Address for the year 1920-1921, beg to report as follows :—

DOMINION ANNUAL MEETING

In the first place we desire to express our gratification at the satisfactory results reported in regard to both membership and finances.

We recommend that the various actions of the President and Council be approved, and that such matters as would appear desirable for continued action be referred to the incoming President and Council.

In particular we would mention the following :—

- (A) Educational Policy—The attempt towards a uniform standard of instruction and examination.
- (B) Taxation Rulings—Continuation of effort to secure these.
- (C) Joint Meeting with American Institute—Idea to be kept in view for action when suitable opportunity arises.
- (D) Other Societies—Continued vigilance of Committee on Legislation and General Purposes is considered specially necessary under existing conditions.

It is recommended that the address be printed for the information of the members.

Respectfully submitted,

(Signed) JAMES HUTCHISON
CECIL E. RACE
H. D. CREIGHTON.

It was moved, seconded and carried that the invitation of Nova Scotia to hold the next Annual Convention of the Association in Halifax be accepted, the date of holding the Meeting to be decided by the hosts.

Following remarks by a representative of the American Institute and by the Dominion Association representative at last year's Annual meeting of that body, it was resolved that the Dominion Association send a delegate to the next Annual Meeting of the American Institute of Accountants, the delegate to be named by the incoming President.

After delivery of an Address by Mr. W. G. Rowe, a British Columbia member, discussion arose as to needed encouragement for the various Provincial Students Societies. The activities of various student's Associations were outlined, and it was suggested that space in the "Canadian Chartered Accountant" should be devoted to a "Student's Department."

Mr. Neff (Ont) speaking for the editor of that publication, assured the Meeting of sympathetic treatment towards any material which student bodies cared to submit.

Cordial thanks for the hospitality extended by the Association, were voiced by Mr. Shorrock, of the American Institute, and acknowledgment was made by the President, following which Mr. Creighton, (N.S.), the President elect, was voted to the chair.

The retiring President, Geo. E. Winter, (B.C.) was accorded a very hearty vote of thanks for his services. A tribute was tendered, also, to the retiring Secretary, and to the B.C. Institute for its hospitality. After suitable replies had been given the business of the Meeting was declared ended, and the National Anthem concluded the Session.

SOME FIGURES AT THE CONVENTION



PRESIDENT'S ADDRESS.

Gentlemen:

It is with feelings of sincere pleasure and satisfaction that I welcome you here today to attend the annual meeting of the Dominion Association of Chartered Accountants. The only previous meeting in British Columbia was held in this city in 1915, and owing to the great war in which our country was then engaged, was restricted, and rightly so, almost entirely to routine business matters; we attempted but little in the way of entertainment for the few members who attended our sessions. It is most gratifying to us to welcome to this second meeting in Vancouver such a good representation from the other Provincial Societies and also the members of the Washington Society of Certified Public Accountants, whom we are pleased to have join with us in all the items on our programme.

It is always gratifying if, at the close of a year in the history of an organization, it can be declared that the year has witnessed progress and growth. It is expected that such a declaration shall be made, as evidence that those having charge of the organization have been faithful in attending to its interests and welfare, although in our case probably only a small measure has been due to our efforts.

It is, of course, advisable to determine what in our judgment constitutes progress. This is usually considered a matter of enlarged membership, a better financial position, higher standards and qualification required, growth in public estimation and greater prestige of the Association, increased interest in the Association affairs shown by the members etc. While we may not be able to report as favorable gains under some of these headings as under others, yet we are satisfied advances have been made, although these have not all resulted from the efforts of the committee or those in charge of affairs.

Membership

Owing to the changes in the By-laws, which were approved at the last meeting and confirmed by all the constituent societies, all those members of the constituent societies residing outside of Canada were brought into membership in this Association for the first time since its re-organization. The total membership reported at the last meeting amounted to 570 the total now reported amounts

to 724 a gain of 154. There are resident in Canada 602 the remainder residing outside of Canada.

The details by Provinces are as follows :

1920	Provinces	1921	
		Members resident in Canada	Outside Canada Total
89	Montreal, (Que.)	85	5 90
177	Ontario	181	41 222
80	Manitoba	83	18 101
35	Nova Scotia	39	2 41
62	British Columbia	74	35 109
64	Saskatchewan	72	8 80
55	Alberta	58	13 71
5	New Brunswick	7	7
3	Members at large	3	3
570		602	122 724

Finance

The report of the Secretary-Treasurer will be submitted to you ; from this it will be seen that the funds of the Association are now in a very satisfactory state. The special assessments levied on the constituent societies brought in an amount equal to previous annual revenues and this year's increased annual fee gives us ample funds with which to meet readily all our obligations and provide a reserve for future contingencies.

Educational Policy of Ontario Institute

A most important announcement was made in January last by the Ontario Institute, of an educational plan possessing in my opinion great possibilities for the future. The Council of the Ontario Institute decided to establish its own facilities for the instruction of its students, and invited the co-operation of its sister (Canadian) Institutes, offering, if other societies joined with it to arrange for control of this plan by means of a joint committee.

Considerable interest has been shown in the proposals one of the principal reasons in my opinion being that as it would give uniformity in instruction, the next step would be uniformity in our examinations throughout the Dominion, and ultimately one set of examination papers in all subjects excepting that of Provincial law.

The Dominion Council being satisfied that the suggestion was of considerable moment to all students throughout Canada, recommended to each constituent society that all students be notified of the educational policy outlined by Ontario, with the suggestion that every consideration be given to it in any future plans concerning study course.

Mr. George Edwards, F.C.A., of Toronto, will submit a paper this afternoon entitled "The Educational Responsibilities of Chartered Accountants' Societies" with special reference to the Ontario Institute's educational policy. I am assured this paper contains very valuable information and will have an important bearing on any policy pertaining to educational matters.

Such policy is undoubtedly a matter of concern to each of our constituent societies; the adoption of the scheme which Mr. Edwards will outline, even the general recognition by the Societies of the soundness of his contentions and the consequent effort to meet on common ground will mean a big step toward the consummation of our hopes for "Uniformity" and I urge very careful and serious consideration of the question.

It should be a cause of much gratification to us that certain of our members are doing such splendid work along educational lines. The value of this work cannot be fully realized as yet but will, I am satisfied, be better appreciated as time goes on and the results are clearly demonstrated.

Taxation Rulings

The President last year reported to the annual meeting that he had been in communication with the Commissioner of Taxation and had impressed upon him the necessity of a book or pamphlet of Tax Rulings being issued. So far we have been unsuccessful in our endeavors to secure such a booklet.

Many inquiries have been received during the year from members of this Association, requesting that we should not lose sight of this important matter.

"Canadian Chartered Accountant"—Joint Year Book

It was determined at Toronto to make this year's July issue of the Canadian Chartered Accountant, a Joint Year Book, containing information of the constituent societies Incorporation Acts and By-laws as well as those of the Dominion Association. Unfortunately the printers' strike has made it impossible to have the proposed year book ready for issuing to the members, prior to this meeting.

May I at this time remind the members of the request made by the representative of the committee at the last annual meeting that contributions of accountancy literature be sent to them and assistance be given in securing other material which would make the Magazine of even greater interest to its readers than it has been in the past.

We owe a great debt of gratitude to the members of the committee who have co-operated toward the betterment and extension of the Magazine; we congratulate them upon the success that has attended their efforts and we should each endeavor to support them in the important work they have in charge.

Joint Meeting with American Institute of Accountants

At our annual meeting in Winnipeg in 1919, it was suggested that an effort be made to bring about a joint meeting with the American Institute and correspondence resulted with the Secretary. In 1920 at Toronto the matter was again considered, and our delegate who attended the meeting of the American Institute in Washington, has reported that although the suggestion was received in a very friendly manner, it seemed difficult for the present at least, to make satisfactory arrangements. The matter, therefore, stands in abeyance until some future date.

Legislation

During the year no new legislation of importance affecting our work as Public Accountants has been enacted. The announcement of the abolition of the Business Profits War Tax Act was probably welcomed by many of our clients and considered a relief by many of our members who had been called upon to make out returns under this Act, or to act as adjusters between the so-called grasping tax-official and the reluctant poverty-protesting tax-payer.

Other Canadian Accountants' Societies

During the past year we have heard of activities of Accountant Bodies other than our constituent societies. I approach this subject with some degree of caution and yet feel that we should face the situation squarely as it now presents itself to us. We were warned long ago that we might expect rivalries to the supremacy of the Chartered Accountant in Canada unless we profited by observation and made due and proper plans to meet all emergencies. May I quote from the address of Mr. George Edwards, when President of the Dominion Association in 1912 :

"Whether the labor and thought of the past few years have given permanency and flexibility to professional conditions in Canada time alone will tell. Some of the tangible results of our efforts justify the hope that it may prove to be so

The permanency of the name by which competency in a public accountant will be designated cannot be doubted. More largely as the result of coincidence of thought, however, than of any careful planning or design on our part the name of Chartered Accountant is the name which has come to occupy a commanding place in Canada. It is not enough to be content to accept this good fortune complacently and assume that this condition must perforce be permanent. The history of an older commercial centre than ours warns us that there may be dangerous rivalries in the near future to the supremacy of the Chartered Accountant in Canada if we fail to profit by observation."

Several societies of accountants have been formed in different parts of Canada during the past few years and certain of these

societies have recently been very active in securing members and endeavoring to gain a footing and standing in various communities. In Prince Edward Island a Bill was passed at the last session of the Legislature (in the Spring of 1921) incorporating the Institute of Chartered Accountants of Prince Edward Island. Unfortunately the Bill was passed before we were aware of its being framed and when our Legislation Committee took up the matter with the Premier, our protests were of no avail because they were too late—we are now awaiting further developments.

I trust that at this meeting careful thought will be given to the whole question and a plan or policy outlined which will enable us to meet successfully the conditions which are now confronting us and to prepare for, if possible anticipate, further developments. I cannot but feel convinced that a plan or policy which would do this, must, while emphasizing the needs of the same standards of competency and conduct as in the past, also embody a flexibility and adaptability to local conditions which will permit us to make, at times, concessions in order that we may ultimately grow in strength and influence.

I desire to thank the members of the various committees who have so willingly given of their time and labor to the many matters entrusted to them. Of necessity the conduct of the affairs of a national body of professional men must be carried on by a small minority of its members but we are satisfied that we have had during the year, the support of the whole Association and we have endeavored to carry out to the best of our ability the trust conferred upon us.

It is to be hoped that our meeting in convention will not be simply productive of better acquaintance and enjoyment of the members, however valuable this may be, but that it will tend to a more complete determination of the lines of our future efforts and an encouragement of our endeavors.

In the past we have prospered and become strong through a general recognition of our shortcomings, and an earnest effort to correct our mistakes and profit by experience. We have very much to learn, and possibly to unlearn, but if we continue in mutual esteem for each other and a sincere desire to further the work of our chosen profession, we shall undoubtedly attain to greater fields of usefulness and honor.

I will close by repeating again the message I sent you at the New Year. I can think of no better suggestion than this to leave with each of you—the idea of public service.

Without question the Chartered Accountant in Canada to-day finds his profession more appreciated by the public than ever before; greater demands are being made upon him and consequently his responsibilities are greater. The membership of the Dominion Association continues to grow, and with such growth our opportu-

ities of service to our country increase. The wealth of knowledge accumulated during years of practice must necessarily so equip those who follow our profession as to enable them, if they choose, to be of great benefit and service to the communities in which they reside.

Are we, the members of the Dominion Association, taking as prominent a place as we might in the public life of Canada? We can make our profession a potent factor in the advancement of our community interest by taking an active part, by keeping our ideals high, and attempting to measure up to them.

"There is no influence in any community more potent and powerful for the accomplishment of good than that of the business and professional men unselfishly banded together for the purpose of promoting the general welfare of the entire citizenship."

GEORGE E. WINTER,
President.

THE CHARTERED ACCOUNTANT AND THE BUSINESS MAN

BY W. H. MALKIN, ESQ.

Address Delivered by Mr. W. H. Malkin, of Messrs. W. H. Malkin Co. Ltd., of Vancouver, at a Luncheon Tendered to the Dominion Association Members by the Institute of Chartered Accountants of British Columbia, on
Tuesday, 23rd August, 1921.

Mr. Chairman, and Gentlemen, it is with great pleasure that I find myself before you today, although I must confess I feel nervous in speaking to you when I find myself faced by so many professional gentlemen who probably know infinitely more about business than I do myself.

Before proceeding to make a few remarks which I propose to do in the short time allotted to me, I would like to congratulate your Association on having selected Vancouver as the City in which to hold your Annual Meeting. I am indeed sorry as a resident of Vancouver at not being able to provide drier conditions in the atmosphere outside (laughter) but you can find something inside which I believe you can't get in the East—my friend, Mr. Hodges, there is smiling—(laughter.) Perhaps the internal atmosphere will offset the outside. I think, however, the sun has started to shine and from now on you will have beautiful weather.

I particularly welcome those of you who have never been here before. I think when you come to leave, you will realize that any Canadian who has not seen British Columbia has left the best of his country until the last.

I have often thought that the Province of British Columbia stands by herself in the Dominion, with her scenery, and her climate, and vast natural resources, and I am sure that having seen our country, you will return to the East, prouder of Canada, and a better Canadian than when you came.

In the West we have the reputation of talking of large things. I will try and avoid this, believing that what you see will be sufficient.

To those of you who do not know much about British Columbia, I will just give you these few figures, to give you an idea how we stand.

Our net funded debt is \$47,000,000.00.

Our current revenue in 1920 was \$12,000,000.00.

Our current expenditure for the same year was \$10,000,000.00.

Our estimated population at present is 700,000.

Our area is 356,000 square miles, or 227,000,000 acres.

We rank third in size amongst the provinces of the Dominion.

In 1920 our total production was \$267,000,000.00, which with our small population, is very commendable.

The estimated increase in British Columbia's population in the last ten years is remarkable. In 1911 the population was 392,000—today the estimated population is 718,000, being an increase of 83%, which, I think, is a larger increase than that of any other province of the Dominion.

Conventions such as these, where citizens of the same country living far apart assemble to discuss matters of common interest, provide a national comment, which in our vast country, 4,000 miles from the Atlantic to the Pacific, is so necessary if we are to create a national spirit in a people, which is continually trying to assimilate a large immigration from all over the world. By meetings of this kind, we get to know each other better, and East and West are drawn closer together as we join hands in a common love of our Dominion, regardless of distances and apparent diverse interests.

But I must get on with my subject. When racking my brain for something to talk to you about, it seemed to me, as you are professional Chartered Accountants, and I an ordinary business man, a subject of common interest would be the simple one of "The Chartered Accountant and the Business Man," and if you don't mind I will try and be as clear and definite as possible in my remarks by adopting the parson's way of dividing the subject up into headings.

My first heading will be : "Is the Chartered Accountant necessary to a successful Business ?," and secondly : "If so, what are the Chartered Accountant's functions, and what should be his relationship to the Business ?"

Now, I warn you that you may not agree with my way of treating this subject. There are some things possibly that you will object to, but I propose to put before you the opinion of a plain business

man, and although what I say will no doubt be very imperfect, it will represent what my own experience has taught me.

In reply to my first point : "Is the Chartered Accountant necessary to a successful Business ?", I think my answer would be to ask another question : "Is a Family Doctor necessary to a Family ?" My idea of a Chartered Accountant's relationship to a business is much the same as that of a family physician to a family, only more so. The diseases of a business often need searching out by an expert. The diseases that man is heir to, are generally apparent, and the doctor is called in accordingly. Businesses have often gone on for years without an outside audit, and have been apparently successful ; but if we knew the number of failures that could have been avoided if proper audits had been made by experienced accountants, it would be a startling revelation.

A sound business man usually wants to know every detail of his business and have these details arranged in their proper relationship. The haphazard successful business man has gone for ever, and may he never return ! You will rarely find an unsuccessful business man who has his books properly audited by a Chartered Accountant.

If you will pardon a personal reference, I can tell you that the business in which I am interested is a close Corporation, practically owned by myself and two brothers—a family affair—and the owners take an active interest in the business, and yet we have had for many years a very close audit. We feel that the outside experts coming in, can see angles of our business that we who are inside would never see. A business without an outside audit is like a ship without a compass. In smooth seas and bright sunshine all is well, and the compass is hardly needed, but at night, in stormy weather, you are bound to get on the rocks or out of your course without a compass. A Chartered Accountant is just as necessary to a well conducted business as a compass is to a ship.

From what I have said you will gather that the Chartered Accountant is necessary to a successful business, and I think this fact is becoming more apparent every day.

Coming to my second point : "The Functions and Relationship of a Chartered Accountant," let us see for a moment what they are. May I first of all begin by saying what they are not.

First :—They are not merely that of a detective.

Second :—They are not merely a checking audit.

Third :—They are not merely an Agency to explain how to avoid paying taxes.

Most people think of a Chartered Accountant as an expert to come in and make a surprise count of the cash, check the vouchers, and draw a profit and loss statement.

Well, I do not know whether you agree with me or not, but my idea of a Chartered Accountant is something far different than

that. I like to think of a Chartered Accountant as a confidential Father Confessor, an advisory business counsel, if you like, not a mere automatic checking machine.

If it were possible for every Chartered Accountant before beginning to practice, to have a few years in practical business, it would be an admirable thing. My ideal Chartered Accountant would not only be an expert accountant, but his knowledge of costing, salesmanship, business management, transportation, and the relationship of labor and capital would be wide, but not necessarily infallible. The advice he would be able to give on the subjects just mentioned would be very helpful to his clients. Many business men, especially in the first strenuous years of their lives, live so near to their businesses, and live so strenuously, that they get a wrong perspective. The business gets lop-sided, or top heavy, over-strained, or half starved for want of capital. At times like these a well informed Chartered Accountant with a good general knowledge of business, would be of great value to such a man. The advice of such one coming in with his detached outside views, would often guide a business off the rocks for which it might be headed.

Business worries often come from a lack of knowledge of the details of business and business men often miss not having some such outside expert with whom they can discuss their difficulties. My ideal Chartered Accountant would be just the one a worried business man could consult with. Of course, he must see that he does not put off consultation too long to leave calling the doctor until you are dying is fair neither to patient nor doctor.

Therefore, I say the functions of an ideal Chartered Accountant are not confined to columns of figures.

I am a great believer in the "pleasure side" of business, and think of it as one of the greatest games in life, and I am glad I am in it; but to play the game properly and win you must know all its details. Business is full of romance, and there is great stimulation and pleasure in conducting a healthy, active successful business, not merely for the money there may be in it, but more particularly the fact of accomplishing something worth while.

From what I have said you will gather that the functions of an ideal Chartered Accountant are very varied and most important. His relationship to the business should be very close, intimate and confidential. Bearing this in mind, I should like to touch on one sometime forgotten, but very important function of my ideal Chartered Accountant. He must above all things, help his client to be honest, and neither negatively or positively condone anything approaching misrepresentation or dishonesty. Commerce in all its ramifications represents a very large portion of our community life. Commerce creates wealth, and is the foundation of a great state; it feeds, clothes and houses the people; it loads our ships with goods, develops

our mines forests and fisheries by creating markets, and giving facilities for transportation. Commerce builds our railroads and opens up our agricultural land. Commerce creates wealth to build our schools and churches and establish our institutions, enabling us to live in comfort far away from the points where most of the things we use and need are grown and made. In fact, commerce touches our individual and community life at every point. We see, therefore how necessary it is that those engaged in it are honest men. You may have commerce in a very rich community, immense imports and exports, large factories, etc., but if the men engaged in the work of directing that commerce, are not men of integrity and honesty, the moral standing of the whole community will gradually deteriorate.

As a leading banker said to me the other day, discussing the subject of business morality: "Honesty in a Bank was like virtue in a woman—once questioned or tarnished, it was rarely recovered." And so it is with your profession. It should be one of the most sacredly regarded virtues. Members of your profession can do untold good to the whole community by developing a high tone of honesty and integrity in your members. It is most important, of course, to raise the standard of efficiency and never lower it, but it is of infinitely more importance that the high tone now prevailing in your profession should not only be maintained, but raised as high as possible.

It would seem to me that the future of your profession in Canada is very bright. When I first came to British Columbia, twenty-six years ago, there were many merchants in outlying points, and some in our cities who did not keep books. Practically speaking, no taxes were paid by anybody. Except in large companies, it was not necessary for a business man to have a proper statement made out annually, but what a change has taken place! especially since direct taxation was imposed by the Government, and although we all dislike taxes if we are honest, we must admit that direct taxation has had in some ways a very beneficial effect on the method of bookkeeping, and has caused many business houses to give the details of their business much closer attention; and these taxes have come to stay.

As time goes on, your profession will be needed more and more by the business community. Canada has made wonderful progress in the last quarter of a century, but it is nothing to the progress and advancement it is going to make during the next twenty-five years. The young men of to-day have much brighter prospects than men of my generation had a quarter of a century ago. The next twenty-five years will be fraught with interest and encouragement. It is idle to prophecy, but with Canada's natural resources hardly touched a small national debt, the sound position of our banking institutions,

and the large amount of money on deposit in our banks, with all our unoccupied lands open for immigration, and with the eyes of Europe fixed upon us as the land of promise, it would appear that we are not too optimistic when we look forward to immense progress during the next quarter of a century.

I appreciate the fact that you have given me the opportunity of speaking to you in this very sketchy and somewhat disconnected manner. I take this opportunity of wishing your Association a year of progress. I trust that as you continue to increase the number of your membership you will see to it that those high principles so prominent in our foremost firms of Chartered Accountants, are kept well in view, and that the commercial world will always feel that when they see the signature of an Associate member of your Association at the bottom of a statement, it will carry with it the character that will be the hall mark of integrity and truthfulness.

THE EDUCATIONAL RESPONSIBILITIES OF THE
CHARTERED ACCOUNTANT SOCIETIES

BY GEO. EDWARDS, F.C.A.

THERE is no such thing as privilege without responsibility. The exercise of any privilege implies the acceptance of some definite responsibility. The privilege may be enjoyed in a personal or individual capacity, or collectively, or both. The nature or measure of responsibility assumed will depend under such circumstances upon the value or extent of the privilege. Thus men and women are endowed with the privilege of parenthood, and with it goes the acceptance of the duties and obligations of family life. Certain of these responsibilities cannot be evaded, that, for instance, of providing support; others may be delegated, as, for instance, that of furnishing the education deemed necessary to fit for citizenship.

In civilized communities every citizen enjoys privileges, for example, that of retaining and profiting by the fruits of his skill or industry. This privilege is secured to him by law, and law results from the acceptance by the citizen of the responsibility, individually, and also collectively with his fellows, for making laws and providing for their administration, with the expense which that involves. All persons in the community may in due course come into the full enjoyment of the privileges and assumption of the responsibilities which inhere with home life and good citizenship.

Privileges may, however, be either common or special in their nature. Those to which reference has already been made are in the first named category. Special privilege is that which belongs to a class, and is not common to all. It may belong to rank, position, occupation or property.

Various illustrations might be given of class privilege and its attendant responsibilities, but our own profession furnishes as good an example of it as any, although it may assist us to consider in its wider application the privileges and responsibilities of the professional classes of the community. A profession is generally understood to mean the exercise for gain of technical mental attainments either by imparting like knowledge to others or by applying it to the needs of others. When, however, the attainments so exercised are due to the accident of natural gifts or to independent research, the confidence of those who employ the professional man rests upon personal knowledge only of those attainments, and there is no collective responsibility to the public for their due or proper exercise. Nor, unless there is collective responsibility and a common standard of technical capacity, can there be said to be a profession. A profession is given its status solely

because a body of persons having or professing a common standard of technical knowledge have agreed to maintain such standard, and to hallmark those persons who have proven that they have attained to it. The standards thus fixed, having been found adequate to the needs of the community, and a distinctive designation or name having been given to those who have been found capable of rendering that standard of service, a privileged professional class comes into being, and those who enjoy the benefits enter collectively into a contract with whom it may concern, whereby they assume a definite responsibility, that of ascertaining and certifying to the qualifications of members of their class.

This, then, is the responsibility of our privileged class, otherwise known as "Chartered Accountants." The distinctive name has its origin in the fact that the body of persons which first undertook the responsibility, secured its privileges by Royal Charter. Acts of Incorporation, or Letters Patent of Incorporation, are in effect the same thing, but accomplished in another way. Each proceeds from the source of authority, and delegates, within certain well defined limits, that authority to others. For its due and proper exercise the body so chartered is responsible to the authority that created it, which, under constitutional government, means the people.

Someone may be prompted to observe that no member of a Chartered Accountant Society will deny the fact of responsibility, and that the only point about which there will be any difference of opinion is the nature or extent of it, and what it is incumbent upon us to do or abstain from doing, so that we may not be held to account. A view sometimes expressed is that a Chartered Accountant is one who has passed the prescribed examinations and been admitted to membership. Indeed, the language of many by-laws found upon the records of our Societies justifies that view. If this is a sound view, and in the faith of it we prescribe examinations and the candidate gets the necessary marks, we have discharged our responsibilities. We have no educational responsibilities whatever.

But the facts that we have made provision for student societies with avowedly educational objects, and that we have—or some of our societies have—encouraged the establishment of lecture courses, are evidences that we have admitted our responsibility, collectively, for the education of our student bodies. This admission of responsibility is to be accounted for in two ways: First, that it was a reasonable and proper duty for the Legislature—or source of authority—to lay upon some class of persons qualified to perform it; and second, the moral conviction which prompted that class of persons to accept the duty so delegated by the Legislature, as the price of obtaining, concurrently, the class privileges, designations and powers of regulation which formed the other part of the contract.

These Chartered Accountants who have articulated clerks have individually undertaken to teach, that is, educate them, and even if there is not the form of articles, the duty is implied from the moment a clerk enters upon the term of service called for by our respective by-laws. Therefore, in the matter of educational responsibilities we cannot, at any rate, prove an alibi.

Once we reach the point of frankly admitting that there rests upon us the responsibility for the education of our students, it follows that we must recast our definition of a Chartered Accountant. We must instead say that a Chartered Accountant is one whom we have taught or educated, or caused to be taught or educated, and having been so taught or educated, has passed certain examinations intended fairly to test the knowledge so imparted and acquired.

It is to be feared that what has thus far been attempted by the Societies in an educational way has not been very well done. The lecture courses, from the nature of the case, include those subjects only which the good-natured lecturer (who is generally also a very busy practising accountant) happens to have on tap. Many essential subjects are apt to be left out altogether.

To suggest that the practising principal imparts only casual and incomplete instruction to his clerk may not do full justice to some of the less absorbed or more conscientious employers; but from the nature of the case here also it cannot be expected of the employer to do more than aid his clerk in the special line of his own practice, which probably never covers more than a fraction of the range of study our standards require.

So that we arrive at the point where, having admitted our educational responsibility collectively, and being unable to escape admitting it individually, we find that the means thus far employed do not entitle us to say that there has been specific performance.

It has already been allowed that some responsibilities are of a sort that they can be delegated. We might claim, therefore, a clean bill of health if we are able to show that we have a proxy who is doing the work for us. If the education of our students is being done for us, we must inquire, before dismissing ourselves from responsibility, as to the competency of the instructors, the range of the work done and the adaptability of the method employed. It might, however, be questioned whether, or to what extent we possess the right to shift these responsibilities and place them upon other shoulders, having regard at any rate to the circumstances of our own case. This would seem to be the underlying consideration, and therefore the first to examine.

DOMINION ANNUAL MEETING

It will be accepted as axiomatic that the people through their elected representatives may delegate the performance of a public duty, but it is not always so clear that the delegate has the power of substitution. The delegate may obtain assistance, or adopt or employ means, but his individual, or as in our own case, collective responsibility remains. That is to say, he or we in any assistance obtained or means employed shall see to it that the duty is performed or the thing done for which we were delegated. Otherwise we hold our class or special privilege under false pretences.

Wherein, therefore, we procure others to do what we have undertaken to do, we are bound to retain control, and the power to resume and exercise at any time, for or without cause, our own responsibilities. It will be evident that assistance or means so employed does not delegate any authority whatever, so that when we safeguard our educational policy in this way, it only remains to assure ourselves that the duty is being adequately performed.

What is involved in the term "adequately"? First, the range of subjects prescribed. Second, the sources from which the knowledge of the selected subjects is derived. Third, the value, relatively, of the subjects. Fourth, the time, circumstances, and arrangement for study. Fifth, the competency of the instructors. Sixth, the co-operation of the employer in the matter of practical work. Other considerations may be involved, but these are the essentials.

What are the circumstances of our own case, educationally considered? Mainly these, that our Societies, unlike the educational media which prepare the subject to perform the duties of citizenship by instructing him in the theory, and then turn him loose without any continuing sense of responsibility, profess and undertake to instruct him in both the theory and practice of a professional class, and having done so, regulate him in the exercise of it, discipline him for infringing the rules, and finally, look to him in due course to "carry on." "Adequately" under such circumstances may have a meaning of its own.

What has been done by the Chartered Societies thus far, by way of implementing their contractual obligations? So far as can be ascertained, all have defaulted, leaving the duty to be performed in a casual or half-hearted way by private tutors and schools, or by universities, and departments of commerce, and finance, none of them either under the control or the regulation of the Society, and therefore not operating in any sense whereby the Societies may claim to exonerate themselves. It does not improve our case to say that some one or some organization is doing it pretty well. We have their own testimony that they are doing it far better than

we can, although amongst themselves they will each be disposed modestly to claim pre-eminence. Whatever their claim, ours is the shame and the reproach, for, saving a few unselfish and earnest men who have freely given their services (to the extent that we have made it possible) by lecturing to our students, we have gone our own way and minded our own private business.

What about the students? We encourage them to form student societies; leave them pretty much to their own resources as to the manner in which they carry them on; leave them to conduct a still hunt among the chartered accountants every year for those who may be found willing to lecture to them; give them no power to compel attendance even to these haphazard events; and if they ask our advice as to this or that extraneous aid to technical knowledge, we tell them that we do not endorse any one in particular—they must pay their money and take their choice. Yet these are the men whose service we must have, whom we individually expect to maintain the tradition of our respective offices, and upon whose loyalty and integrity we stake our reputations.

Of the student body in Ontario the attendance at lectures last winter averaged about twenty per cent. of the entire number. The remainder absented themselves for various reasons, chiefly either requirements of their employers or preferring private tuition, the value of which can only be determined by what the promoters say of themselves. Parenthetically it may be stated that the record of the Ontario Institute examinations over a period of twenty-five years shows that the percentages of successful candidates have not appreciably varied, so that the true inference from the circumstances may be that the student who digs out knowledge for himself is quite as well off as the one who avails himself of private tuition facilities, and if so, then logically the conclusion must be that the chief, if not the only, end accomplished by an educational course is the exploitation of an inexperienced student body. Indeed, we might go further and deduce that the student of to-day had placed himself at a disadvantage by calling to his aid private tuition facilities and abandoning the line of study undertaken by the student of two decades ago. Such a deduction would not be an unreasonable one, when it is borne in mind that the examination standard of the Ontario Institute has been practically constant during that time, the service requirements only having been made more exacting.

But if the average student of twenty years ago, who in his own self-reliant way dug up the knowledge from text books or other sources, was as well fitted or prepared for his examinations as the average student of to-day, how does it come about that he is willing now to invest substantial

sums of money in correspondence or lecture courses? What is it that he expects to get for his money now, that he cannot get without it, or that the student of twenty years ago did not or could not get? Both passed the prescribed examinations with apparently equal facility, and it would be difficult to differentiate by points or even generally between the product of then and now.

The answer probably is that to the student there is a certain confidence inspired by the knowledge that his studies are being definitely directed, his work laid out for him, and the assistance of comment and criticism being afforded as he submits his work for review. The student of other days, having no one to lean upon, probably did much harder work, explored his subject with greater care, and it might well be that by reason of it his success under examination was the logical result.

If this were the determining factor, we might well come to the conclusion that the best course for the Institutes to pursue in the interest of the student would be to advise him against making use of correspondence or lecture courses, and become self-reliant again, preparing himself for the examinations by the unaided study of his text books and the keener exercise of his faculty of observation during the periods afforded by his employer for practical service.

There are, however, other considerations to be taken into account. The most important, perhaps, is the desirability that the student body should be kept under observation, and this can best be accomplished by giving direction—officially—to the line of study which the student shall take up, and by obtaining and recording the evidence that the directions so given have been observed. Thus a measure of protection is afforded the professional body against the accident or contingency of a pass due to pure luck, or to the fact of a retentive memory for information superficially acquired.

The opportunity for thus observing the progress of the student is lost, if his education is left to external agencies, and, per contra, it might well be that an official record of the student's progress during his instructional term would be an invaluable aid to the board of examiners in deciding doubtful cases.

At the present time the system of minimum marks obtained upon a written examination is the best means of determining technical capacity in the candidate, but we should not be satisfied with it if there is a better way. The inauguration of an educational system would seem to point to a better way, or to be more precise, improve the existing way and throw light upon it.

The true test of technical ability has been the object of much thoughtful research. Originally the standard was that which the individual applied to himself alone, the minimum of knowledge, the minimum of common sense, the minimum of practical experience, which in combination constituted the minimum of ability to render useful service to the public and consequently enable him to derive therefrom the minimum, at the least, of financial advantage and established reputation. It has always been easier for one to fix such a standard for oneself than for others, and much easier, relatively, than to come into agreement with other members of his class concerning the standard by which the qualifications of that class should be determined.

The effort to fix standards and determine the exact tests which should be applied under such circumstances develops the sense of responsibility. This sense of responsibility has led naturally enough to a great divergency of views on the subject. It would be hardly possible to state here all of the many points of view which have found expression at one time or another, still less to compass them by discussion within the time available. Summarized, they fall into the following categories:—

First, the tests of general education. Second, the test of the written examination. Third, the test of the oral examination. Fourth, the test of service or experience. Fifth, the test of occupation. Sixth, the test of general business sagacity. Seventh, the test of study, otherwise the educational test. Of them all, the last named is—considered as a test—the one upon which less emphasis has been laid than upon any of the others. Tests numbered one to six either singly, or some two or more of them in combination, have been regarded as sufficient, and we only require to examine historically the professional organizations we know of, and scan their lists of members, to discover that this is the case.

If a definite and directed course of study for the student has not hitherto been seriously regarded as a qualification for membership in our professional bodies, it can hardly be for the reason that such study is deemed unnecessary. If we deem it necessary that the student should cover a well defined range of subjects, either by reading, lectures or classes, or all combined, why do we not feel the responsibility sufficiently to make such study a condition without which membership may not be obtained in our Societies. It seems logical that we should do so. And if so, it must be logical that we accept the responsibility for telling the student just how far or fully he must go in that direction, and upon these premises the conclusion can hardly be avoided that we must provide the means.

DOMINION ANNUAL MEETING

This is the decision of the Institute of Chartered Accountants of Ontario. It is an unanimous decision, born of conviction that it is the right thing to do. But to make the decision effective is at present engaging the earnest attention of our select committee. Some conclusions have been reached, others are nearing their development. The most important are:—

First, that the correspondence method of instruction is the only one which will serve the purpose, unless we deliberately set out to discriminate against the practising members of our Institute who are located in other parts of the Province than Toronto. The class method involving personal instruction would deplete their offices of students.

Second, that the Institute cannot make use of original matter for students' readings, in the sense that such matter is prepared by or for the Institute for that especial purpose. Such a policy would restrict unduly the liberty of the student, and impair the conclusions which he is entitled to draw from his study. It would, moreover, be by way of inviting invidious comparison between views necessarily imperfectly expressed by a corporate body and for which no one in particular could be held responsible, and the views of acknowledged authorities of wide repute. In any event, the Institute would have no power to dogmatize upon purely technical matters. The basis of instruction, therefore, will be selected text books.

Third, that the text books which form the basis for instruction must reflect the trend of the practice and the law in Canada, which follows British rather than United States precedents. Company law in Canada is based upon British law, and the practice in Canada is very largely involved with laws respecting companies. The same is true of common law, partnerships and executorships. The personnel of our Canadian profession is wholly Canadian or British, and there is no indication of closer relations between accountants of Canada and the United States in a technical or practical sense, although we are glad to believe that they are animated by sentiments of the most friendly nature towards one another. The decision, therefore, is that where there are available suitable text books by Canadian or British authors, these will be chosen. The selection of these books is in itself a task of no small difficulty, and it is not expected that the list will satisfy everyone. The present list will be subject to change, however, as other books better adapted for the purpose in view come under notice. The hope is, however, expressed that in the not distant future the Institute may be able to carry on this work solely from text books of Canadian authorship.

Fourth, the study course must be carried through upon a definite time table, fixed with regard to the necessity for covering a definite range of

subjects during the interval between examinations. This will constitute an important departure from present day correspondence school methods, which begin at any time and proceed at the student's own convenience. To meet the requirements of either a Spring or a Fall examination there will be a Spring and a Fall term, so that enrollments preceding the Spring term will enable the complete course to be taken before the Fall examination is held, and vice versa.

Fifth, that the instruction given must be post graduate in its nature, that is to say, it must assume that the student has already acquired a certain knowledge of the subject, such as, for instance, is furnished by our commercial high schools upon the subjects of bookkeeping and mathematics, knowledge not specifically implied by the fact that he has the requisite arts matriculation standing. The Institute has no warrant for entering into competition with commercial departments of high schools and business colleges whose legitimate sphere is that of fitting men and women for mercantile positions. The aim of these instructional courses should be to supplement the work of these institutions to the extent deemed necessary to fit the student for membership in our Societies.

Sixth, that for like reasons the instruction must, for the present at any rate, be given to those only who have declared their definite purpose to be that of qualifying for membership in our Societies. There is no doubt something to be said in support of the opposing view—that of placing these facilities within reach of all who may wish thereby to improve their technical knowledge. But here again, we are liable to be held to account for invading a field not our own, and moreover, already well occupied. The work to be done logically leads up to our examinations and nothing else, and in its application must be limited accordingly.

Seventh, that all aspirants henceforth for membership in the Ontario Institute must take the prescribed instruction. This is a decision which will operate impartially, and dispose of suggestions of favoritism. The examiner will thus know that every candidate upon whose work he is called to pass has had certain definite opportunities of acquiring the information called for, and the answers given can thus be more intelligently valued. There will, of course, be no restriction upon the liberty of the student to supplement the official instruction in any way that seems to him desirable.

Eighth, there can be no optional subjects. The instruction is designed for one purpose only, to educate the student for his future profession, and here again the requirements will be uniform, subject only to modifications due to the development of professional standards or practice.

DOMINION ANNUAL MEETING

It is expected that under the new order of things, there will be far fewer candidates relatively for the Ontario Institute Primary examination, which has hitherto been a sort of elimination event. The activities of societies having for their object the welfare of the returned soldier, and equal privileges for women, are to some extent responsible for the remarkable increase in the numbers of candidates for this examination during the past three years, but it is also demonstrable that these activities have been due in some measure to our own failure to emphasize in some suitable way the necessity for definite preparation for the duties and responsibilities of our chosen profession. Perhaps ours, more than any other, is susceptible to such misunderstanding, for the reason that, unlike law, medicine, theology, engineering and many others, ours is simply a higher development of a certain sort of knowledge which people of any class or occupation should have, and which is supposed to be easily and cheaply acquired. It would seem all the more necessary, therefore, if we are to maintain the dignity of our own class, that there should be definite rules strictly enforced, without which a person may not qualify for professional status.

It may not be out of place, even at this early date, to forecast the inclusion of cognate subjects of instruction, such as finance, banking, theories of trade and exchange, economics, and others not now definitely considered to be part of the necessary mental equipment of the Chartered Accountant. It is noteworthy that the Institute in England and Wales is now prescribing for the first time an examination in Economics, and as we have usually run a pretty good second to that august institution, we must not lag far behind.

The foregoing program, although designed primarily for the needs of the Ontario situation, will be found flexible enough for adaptation to the needs of the students in the other Canadian Provinces. Provision will be made in due course for a measure of joint control as the need may arise.

It is, perhaps, out of place to discuss more than the general features of the plan at this time. Your confidence in the outcome will be the measure of your confidence in the men who have undertaken it. We have confidence in ourselves, in our plan and in your reasonableness and goodwill. We recognize that we are enjoying by and with the consent of the people of our Province certain definite privileges, and that with these go certain responsibilities. We intend now making a serious effort to meet these responsibilities and discharge them.

CONSTITUENT SOCIETIES' ANNUAL REPORTS

QUEBEC

To the President and Members of the Dominion Association of
Chartered Accountants. Vancouver, B. C.

We beg to submit the Annual Report of the Association of Accountants in Montreal for the past year.

The revision of our By-laws took place during this year, a complete new set of By-Laws being adopted on the 25th of May by the Association and approved by the Lieutenant Governor of the Province in Council, on the 19th day of July. Our By-Laws are now to a large extent uniform with the By-Laws of the other Provincial Institutes, with certain additional By-Laws necessitated by the peculiar conditions which exist in this Province.

There was no legislation affecting the profession passed by the Legislature of this Province during the past year.

Our Membership now numbers 96, consisting of 84 Members resident in the Province of Quebec, 7 resident elsewhere in Canada and 5 resident outside of Canada. Six new Members were admitted during the year and we lost three: two by death and one by resignation: making the net increase during the year three.

In the month of May last, one Final and one Intermediate examination was held; for the Final there were 20 Candidates, of whom 2 passed the entire examination, while 5 passed in the Theoretical subjects only. One of the latter passed in the Practical subjects in 1920. For the Intermediate there were 60 Candidates, of whom 30 were successful in passing the examination.

There is agitation amongst the students for the date of the examinations to be changed from May to December, and unless there is some strong objection raised to the change at the convention, it is the intention of this Association to accede to the wishes of the students.

The announcement by the Ontario Institute of its intention to establish Correspondence and Lecture courses for the Instruction of students was received with pleasure and the Course has been recommended to our Students. It is not possible to follow the example of Ontario and make the Course obligatory upon our students, owing to the rights possessed by McGill University and L'Ecole des Hautes Etudes Commerciales. Evening Lectures have been established at McGill University for the convenience of our Students, preparing for the Final Examinations, and it is hoped that the commencement which has been made in this connection may be extended.

Respectfully submitted,

JAMES HUTCHISON, President.
R. WILSON, Secretary.

ONTARIO

To The President and Members
Dominion Association of Chartered Accountants

We have the honor of submitting to you a brief report covering the work of the Institute of Chartered Accountants of Ontario for the past year.

At the Annual General Meeting held in July 1920 an amendment to the By-Laws was adopted permitting a change of time for holding the Annual Meeting and leaving the selection of time and place to the Council.

Under this authority and after careful consideration of the most convenient time for the members, the Council selected Friday 24th June, and Hamilton for the place of Meeting.

The President Mr. Dilworth desiring to make the meeting more of a social event, issued a special call on the Members to devote the day to the Meeting that the members might have an opportunity of becoming better acquainted.

The arrangements for the day as to service and entertainment, as well as the weather, were perfect to the enjoyment of over one hundred Members and Ladies.

The programme consisted of an automobile ride Toronto to Hamilton and return (the autos being furnished by members without cost to the Institute) Luncheon at the Royal Connaught Hotel, Hamilton. Annual General Meeting during the afternoon. Dinner at the Lake Shore Country Club, Clarksons, Music and Dancing during the evening.

By-Laws :—The By-Laws of the Institute were revised during the year with a view to meeting the recommendations of the Committee on Uniformity of Standards as adopted by the Association last year.

Instruction :—By far the most notable event in the history of the Institute during the past year was the decision of the Council to establish under the powers granted in our Act of Incorporation facilities for the instruction of Registered Students.

The problem of the proper education of the students has been the subject of much discussion for some years past but nothing of any very constructive importance was accomplished until Mr. George Edwards, early in the past year, advocated that the Institute should itself undertake the instruction of the Registered Students.

Under the new By-Laws a Board of Instruction, consisting of Messrs George Edwards, T. Watson Sime and Rutherford Williamson, was appointed and this body has been actively engaged in making preparations looking to the establishing of a faculty of instruction, to be carried on by the Institute.

It is expected that this work will be fully organized and in operation by the end of the present year.

The courses of instruction when established will be obligatory on all applicants for examination.

Change of time for Examinations :—During the past year the students renewed the suggestion made the previous year that the annual examinations be held in the month of December instead of May.

The principal disadvantage urged in respect of May was that in most offices the work of the senior student was arduous during the months of January, February and March in each year and consequently he had little time to prosecute his studies for the May Examinations.

After carefully considering this matter and after asking the students to vote a second time on the proposed change those in favor were so greatly in the majority that the Council decided to give the suggestion a trial. In consequence no examinations were held in May of this year but are due to be held the first week in December.

Membership :—The membership at 30th April, 1921 was 262 as compared with 270 at 30th June, 1920, being a net loss of 8. It is most probable that if the Institute examinations had been held the number of successful students admitted to membership would have more than offset the loss referred to and shown a growth in membership.

The change is made up by one admission by affiliation and nine losses, three of these being due to death, two to resignations and four to other reasons.

The losses by death were :

Quincy Dorr Day, Toronto.

Edwin J. Leishman, Toronto.

Robert F. Spence, Toronto.

Fellows :—During the year Fellowships have been conferred upon the following Members :

R. Easton Burns, Kingston.

J. Wyndham Eddis, Toronto.

Fred Page Higgins, Toronto.

D. McK. McClelland, Toronto.

Henry J. Welch, Toronto.

Rutherford Williamson, Toronto.

Financial :—The financial statement showed a total income for the ten months of \$3,618.16 and expenditure of \$4,208.98 a deficit of \$590.82 for the period.

The Balance Sheet shows a surplus of \$3,980.96.

Library :—Additions have been made to the Library during the year, the selections being made by the Library Board the members of which have been unremitting in their interest in this important

part of our organization. The volumes in the Library now number 550.

Students Association :—As a result of a larger membership and the financial assistance given by the accountant firms in Toronto, the students Association was able to carry on an interesting course of 50 Lectures and meet its expenses without obtaining any grant from the Institute.

Tariff of Fees :—The Council appointed a Committee to obtain and distribute information as to the fees charged by the different firms in the Province.

A questionnaire was sent out and a summary of the replies distributed subsequently to the Members but without making any suggestion or comment on the data.

American Institute of Accountants :—Mr. George Edwards as the representative of the Association attended the Convention of the American Institute of Accountants held in Washington in September last.

Officers elected for 1921-1922 :—The Officers elected for the current Institute year are :—

President	Rutherford Williamson
First Vice-President	Arnold Morphy
Second Vice-President	Francis G. Jewell
Secretary-Treasurer	T. Watson Sime
Auditors	W. K. Colin Campbell
	Kriss A. Mapp.

Representatives to Dominion Council :—A. K. Bunnell, Brantford; W. R. Morris, Peterboro; A. C. Neff, Toronto.

Respectfully submitted :

RUTHERFORD WILLIAMSON, President.

T. WATSON SIME, Secretary.

Toronto, July 15th, 1921.

MANITOBA

To the President, Council and Members of the Dominion Association of Chartered Accountants

We have pleasure in submitting to you the following Report of the activities of the Institute of Chartered Accountants of Manitoba for the year that has elapsed since the Dominion Convention of 1920.

The membership by classes stands as follows :—

Class A.....	63
Class B.....	22
Class C.....	29
Class D.....	3

which is a net increase over 1920 of four members.

Seven new members were added to the Membership Roll, two resigned, and one Mr. W. J. Ptolemy, charter member of the Institute, died.

Since our Annual Meeting we have also been called upon to record the death of a former President, Col .H. M. Cherry, widely known in the Profession in Canada, and in connection with his services overseas and in administrative capacity since the war.

The following were the results of the examinations held November 1920 and May 1921 :—

	Candidates	Passed	Conditioned	Failed
November, 1920.				
Final	13	5	4	4
Intermediate	13	5	4	4
May, 1921..				.....
Final	16	2	2	12
Intermediate	22	10	8	4

The Students Society of this Institute has been re-organized during the past year and has made a very satisfactory progress. The classes under the University have been conducted in the same subjects as the previous year and with good success.

Our Institute has given its qualified approval to the Correspondence Course being prepared by the Ontario Institute, and recommended by the Dominion Association advising our students not to make other permanent arrangements in the meantime.

The Council of the Institute has decided to again increase the term of services required of students so that beginning November 1st, 1921 our new registrations will be for a term of five years.

At the Annual Meeting it was also decided to adopt a form of agreement for registered students, but the precise form of same is to be passed on by the members at large before being finally adopted.

During the year the Council defined what they considered were some objectionable forms of advertising on the part of the Chartered Accountants, and forwarded to each member a copy of the resolution so that they may be guided thereby.

The Manitoba Branch of the United Accountants Limited, with Head Quarters in Alberta was formed during the year, and some at least of their members are using distinguishing initials. This matter is under consideration of our Council and we feel that it is a matter generally, that should be taken up by the Dominion Association in order that some action in this or similar cases may be outlined.

For some time, owing to the growth of the Institute and its requirements especially in connections with Meetings of Council, Committees, and the Student Body and library, it has been felt that some changes in the line of further development should take place,

DOMINION ANNUAL MEETING

and it has been decided to secure permanent quarters and staff in order to properly carry on the business of the Institute, and also to provide better facilities for the oversight and encouragement of the student body. Largely with the view to meet the financial requirements of such expansion the Annual Meeting approved of the change in the By-Laws, materially increasing entries and membership fees.

On behalf of the members of the Institute of Chartered Accountants of Manitoba we extend greetings to the Council and members of the Dominion Association in session at this time in the Province of British Columbia.

All of which is respectfully submitted.

W. D. GLENDINNING, President.
HUBERT READE, Vice-President.

NOVA SCOTIA

To The President and Council Of The Dominion Association Of Chartered Accountants.

On behalf of the Institute of Chartered Accountants of Nova Scotia we have the honour to submit the following report for the year-1920-1921.

Since our Meeting in Toronto in 1920 this Institute has been working quietly in the interest of the profession, and had little of an eventful nature to Report.

MEMBERSHIP: Our membership, which was thirty-eight in 1920 is now forty-two; of whom forty-one qualified as members of the Dominion Association through this Institute.

The distribution of members is as follows:—

Canada	40
Newfoundland	1
British India	1

—
42

The increase in membership entitles this Institute to two members on the Dominion Council and Mr. E. Kaulbach has been appointed to act as the second representative.

EXAMINATIONS: The Annual examinations were held in May with the following results:—

	Entered	Passed
Preliminary	5	2
Intermediate	17	15
Final	7	3
	—	—
	29	20

LEGISLATION : No Legislation of interest to our profession has been passed in this Province since our last Meeting, but the neighboring Province of Prince Edward Island passed an Act to incorporate an Institute of Chartered Accountants in that Island. This action on the part of the Government was reported to the President of the Dominion Association, and will probably be referred to in his Report.

Following a period of prosperity, we are now sharing, with the rest of the Dominion, a time when business conditions are not at their best, and unemployment among the various trades is fairly prevalent. The prospects of immediate relief are not particularly bright, and a certain amount of hardship is to be anticipated during the coming winter.

This Institute has pleasure in extending to the members of the Dominion Association of Chartered Accountants a very cordial invitation to visit Halifax in 1922 as the guests of the Nova Scotia Institute.

Respectfully submitted on behalf of the Institute of Chartered Accountants of Nova Scotia.

T. HAROLD JOHNSON, President.
H. D. CREIGHTON, Secretary.

BRITISH COLUMBIA.

To the Dominion Association of Chartered Accountants

It is our duty and privilege to report to you on behalf of the Institute of Chartered Accountants of British Columbia on matters relating to our Institute, as follows :—

Membership

As at July, 1920	104
Admitted since the last Annual General Meeting	19
	<hr/>
	123

Deduct

Resigned	3
Removed for Sundry Reasons	4
	<hr/>
	<hr/>
	7

Total 116

This total of 116 comprised 27 Fellows and 89 Associates ; 76 Members were resident in British Columbia, 7 in other parts of Canada, and 33 resided outside Canada.

Meetings

Eighteen Council Meetings were held during the last eleven months ended 31st May, 1921.

Articled Students

Since the 1st July, 1920, there were registered with the Institute nine Articles of Clerkship and on 31st May there were thirty-nine students serving under Articles.

Examinations

The Annual Intermediate and Final Examinations were held in the month of December, 1920 and the results were as follows :—

	No. of Candidates Passed
* Intermediate	6
Final	7
	4
	2

Finance

The Balance at the Bank at 31st May, 1921 was \$1,983 and the Institute also held \$500 Victory Bonds.

Arrangements have been made with the University of British Columbia whereby Candidates for our Preliminary Examination sit for a limited Junior Matriculation instead.

Owing to the excessive cost of printing no Year Book was issued for 1920-1921.

In the autumn of 1920, a Society, composed of Chartered Accountants resident in Vancouver and known as the "Chartered Accountants' Literary and Debating Society of British Columbia," was formed and several interesting debates were held during the winter months, the season being wound up with a very successful Banquet and Smoking Concert in April last.

The Student's Society, also, was fairly active during the past winter.

Members of this Institute, who have to make periodical business visits to the United States, find themselves greatly handicapped by the fact that the Profession of a Chartered Accountant is not acknowledged to be one of the "learned professions," and perhaps this is a matter which might very well be discussed at this Convention.

Respectfully submitted,

G. F. GYLES, President,

J. B. WOODTHORPE, Secretary-Treasurer.

SASKATCHEWAN

To the President and Members of the Dominion Association of Chartered Accountants, Vancouver, B. C

On behalf of the Institute of Chartered Accountants of Saskatchewan we have the honour to submit herewith the following report of the activities of the Institute during the past year.

Membership :—During the year ten new members have been admitted nine qualifying by examination and one affiliating through a registered society. One member resigned leaving a net increase of nine members for the year. The total membership now stands at eighty-five of which sixty-eight qualify as members of the Dominion Association through the Institute.

At the yearly examinations held in April last nine students were successful in securing their Primary standing, eleven in passing the Intermediate examination and eight in passing the Final examination. Two Intermediate and two Final candidates were granted supplementals in one subject.

Finances :—It is with pleasure we have to report that the financial position of the Institute is strengthening every year.

By-Laws :—During the year the By-laws were revised and consolidated. The principal change being the introduction of the By-law governing Branch Offices. It is now compulsory that branch offices within the province be in the charge of a Chartered Accountant who is a member of this Institute.

Tariff :—The tariff of fees was up for revision and increased fees of varying amounts were authorized.

General :—The Scholarship scheme adopted by this Institute a few years ago has proved very successful and is found to be of greater assistance to the students than the awarding of medals etc. The Scholarships are awarded only to the Intermediate and Primary Students and can only be used in payment of tuition fees or for the purchase of necessary books.

Many members of this Institute have expressed disappointment that the efforts of the Dominion Association to secure taxation rulings have failed but hope the matter will not be allowed to rest until the required rulings are secured.

We are instructed to extend a hearty invitation to you to hold the 1923 Convention in Saskatchewan.

All of which is respectfully submitted,

F. J. PILKINGTON, President.
THOMAS LAX, Secretary.

ALBERTA

To the President and Members of the Dominion Association of Chartered Accountants

We have the honor to submit herewith the Report of the Institute of Chartered Accountants of Alberta for the year 1920-1921.

The Council of the Institute has held four regular business meetings, alternating between the cities of Edmonton and Calgary, and the annual meeting of the Institute was held in the city of Calgary in May. The principle has been adopted of holding the annual meetings alternately in Calgary and Edmonton.

Membership :—Last year we reported 55 members as qualified from Alberta, with 70 on our Roll. Because of the change of the Dominion By-Laws as to residence in Canada, we are able to report a larger percentage of our members as qualifying for the Dominion this year, viz 71 out of a total enrolment of 72 Members. Five new Members were received during the year, four by examination and one from an overseas sister society while two members have withdrawn because of removal, the one to Toronto and the other to Vancouver, leaving a net gain of 3.

Examinations :—Since the Primary examination is the University Matriculation examination, no record is kept by the Institute of the number of candidates therein. At the Annual examinations in May, there were 35 candidates of whom 17 sat for the Intermediate and 18 for the Final. The results were not as good as they should have been, there being only 8 complete successes while 6 others were granted supplementals. Of these four Final candidates obtained clear passes and four others were granted supplementals. The Council has arranged with the University for the conduct of the next Annual Examinations in the late Autumn instead of in the spring of the year and it is hoped that the students will find this more convenient. All who would have been eligible in the Spring of 1922 are to be admitted to examination this Autumn and there will be no further examinations until the Autumn of 1922.

Dominion By-Laws :—Assent was given to the proposals of the Dominion Association to increase the Annual Dues to \$2 per member, and to delete the words "resident in Canada" from the statement of qualifications for membership in the Dominion Association.

Annual Dues :—To meet these and other increased calls upon the finances of the Institute, it was agreed to raise the Annual Dues of Members resident in Alberta to \$20, while non-residents are required to pay only \$10 per annum, these sums in both cases being understood to cover the \$4 per member, payable in equal amounts to the Dominion Association and to the Canadian Chartered Accountant.

Libraries :—Grants of \$100 each were appropriated to the Association Libraries in Calgary and Edmonton respectively, and each city has the nucleus of a good reference library, accessible to all Chartered Accountants and Students-at-Accounts.

Uniformity of Standards :—Careful attention has been given by a special Committee, then by the Council, and finally by the Annual Meeting, to a revision of the By-Laws of this Institute, to bring them into harmony with the suggestions of the Dominion Committee. The results have been turned into the Publication Committee of the C.C.A. in Toronto, and we trust will be found to have accomplished the desired results. Secretary Race has been appointed local representative for the purpose of the Dominion

ANALYSIS OF A COMPANY'S BALANCE SHEET. *

BY DAVID S. KERR, C. A.

GENERAL MANUFACTURED PRODUCTS COMPANY, LIMITED
PRO FORMA BALANCE SHEET AS AT
DECEMBER 31, 1920

ASSETS

Cash in Bank and in Hand.....	\$ 150,000
Advances to Officers.....	30,000
Open Accounts Receivable (Net).....	730,000
Bills Receivable (Net).....	150,000
Inventories at Cost or Market, if latter lower.....	450,000
Current Assets.....	<u>\$1,510,000</u>
Machinery, etc., at Cost.....	\$2,250,000
Buildings, at Cost.....	1,450,000
Land, at Cost.....	450,000
Goodwill.....	1
Fixed Assets.....	<u>4,150,001</u>
Sinking Fund Trustees.....	\$ 51,000
Deferred Charges to Operations.....	7,000
Other Assets.....	<u>58,000</u>
Total.....	<u>\$5,718,001</u>

LIABILITIES

Bank Loan.....	\$ 300,000
Open Accounts Payable.....	270,000
Bills Payable.....	150,000
Wages, Taxes, etc., Accrued.....	75,000
Preferred Stock Dividend Payable Jan. 1, 1921.....	35,000
Current Liabilities.....	<u>\$ 830,000</u>
Bonds, 5% First Mortgage Sinking Fund, due 1925.....	\$ 150,000
Bonds, 6% Refunding, Sinking Fund, due 1935.....	1,000,000
Fixed Liabilities.....	<u>1,150,000</u>
Total Liabilities to the Public.....	<u>\$1,980,000</u>

ANALYSIS OF A BALANCE SHEET

Reserve for Depreciation of Plant, etc.....	520,000
Capital Stock:—	
Preferred 7% Cumulative (Par Value \$100 per Share).....	\$2,000,000
Common (Par Value \$100 per Share)....	1,000,000
	<hr/>
	\$3,000,000
Surplus.....	218,001
	<hr/>
Equity of Stockholders.....	3,218,001
	<hr/>
Total.....	\$5,718,001
CONTINGENT LIABILITIES	
Bills Discounted (Not yet due). \$	50,000
Bonds Guaranteed.....	50,000
	<hr/>
	\$ 100,000.
WORKING CAPITAL AT DEC. 31, 1920	
Current Assets, as above.....	\$1,510,000
Current Liabilities, as above.....	830,000
	<hr/>
Working Capital (Net).....	\$ 680,000

*Synopsis of Lecture.

Bankers and Customers

Loans versus Investments—Financing through difficult periods—
Section 88 of Bank Act—Bank files regarding borrowers, etc.

Balance Sheets

Calendar Year—Fiscal Year—Balance Sheets for various purposes—Banker's Form of Balance Sheet—Balance Sheet does not tell the whole story necessary to understand position of Company.

Consolidated Balance Sheets

Affiliated or Subsidiary Companies—Inter-Company transactions—Interlocking Directorates—Consolidated statements.

Open Accounts Receivable and Bills Receivable

Good—Bad—Doubtful—Large Customers—Important Contracts—Contingent Liabilities on Bills discounted important—Renewals of prior Bills.

Inventories

Cost or Market value—War Time Conditions—Reconstruction Period—Fluctuations and Market Values—Contracts uncompleted—Method of arriving at Inventory—Theoretical or Book Inventory—All liabilities for goods taken into accounts—Most difficult asset to analyze—Fashions—Season Goods—Persons responsible for Inventory—Departmental Managers—Profit Contracts.

Machinery, Buildings, Etc.

Actual Cost—Leasehold Premises—Patents—Reproductive Cost—Revaluation—Depreciation Reserve not deducted, but shown among liabilities—Depletion—Work in progress—Balance of Contracts—Obsolete Plant.

Land

Appreciation—Depreciation—Reserve Land for Extensions.

Goodwill

What is Goodwill—Going Concern—How book figures arrived at—Assets acquired by lump sum payments—Capital stock as part or full payment—Excess Values—Watered Stock—Reducing Goodwill Account—Reorganization of Finances.

Sinking Fund Trustees

Mortgage Deed securing Bond Issues—Provisions for Sinking Fund payments—Proceeds of Fixed Assets sold—Application of funds in hands of Trustees—Value of any Investments.

Deferred Assets

Careful scrutiny required—Advance payments—Royalties—Insurance—Discount on Bonds.

Open Accounts Payable and Bills Payable

Large Creditors—Affiliated Companies—How Bank's position may be affected by other creditors—Uncompleted contracts—Claims—Litigation.

Preferred Stock Dividend

No liability until dividends declared—Effect on finances.

Bonds

Various classes—Provisions of Mortgage Deed regarding Interest, Sinking Fund, etc.—Effect on Current Assets and Working Capital—Authorized Issue—Bonds outstanding—Future Financing—Reorganizations.

Reserve For Depreciation of Plant, Etc.

What is Depreciation?—Replacements—Obsolescence—"Public Demand"—How Reserve used up.

Capital Stock

Authorized—Issued—Various kinds—Control of common stock—Stock without par value—Outstanding stock not represented by assets of equivalent value—Watered Stock—Discount on stock—Evading legal requirements—Book value of stock—Market value of stock—Fair value of stock—Effect of War on many important stocks.

Surplus

Large surplus does not mean dividend should be paid—Surplus and general reserves—Relation of surplus to capital stock.

Working Capital

Net Liquid Assets—What constitutes working capital—What are classified as Current Assets—What are Current Liabilities—Fluctuations of working capital—Bank Loans and working capital.

General

Outlook—Tariff—Source of supply of Raw Materials—Other Legislation—Change in control of Company—Integrity—Speculation in Stock Market—Turnover and Capital—Percentage of Profit.

*This synopsis is prepared to facilitate the study of some of the points discussed in a lecture delivered at McGill University, Montreal, March 4th, 1921. The pro-forma balance sheet submitted is not intended to indicate all matters covered.

PRICES, PERCENTAGES AND PROFITS.

From the Standpoint of Business Control (By William R. Jex,
Chartered Accountant, Winnipeg).

THE object of all merchandising is the acquisition of profit, and profit is merely another name for the income that a merchant derives from buying and selling in supplying the needs of a community with his goods.

It is a well-known economic law that prices tend towards cost of production. Demand and supply are no doubt the ruling factors, but economists tell us that over long term periods exchanges are effected at prices representing the average cost of production.

While prices are thus in the aggregate uncontrollable, it is a fact that some merchants get better prices than others; and some earn more net profit on lower prices and with less capital.

Another economic law is that retail prices do not follow immediately, either up or down, upon any sudden change in a manufacturer's cost of production, and it is within these intervals and between these oscillations, that a merchant may hold his own or become rich or poor, according as to whether he has been alive to the outside conditions of his market and to the inside conditions of his business.

Under such circumstances as these it is necessary for a merchant to be able to tell whether he is covering his expenses, whether he is losing his capital, or whether he is improving his position.

No matter how fully he may have recorded the business facts of past years, he knows that each fiscal period he enters upon is an uncharted sea. He must forecast the probable needs of his selling market, his own effort and his probable profit. He may know

what his average gross profits have been for several years back, and they may be stated in percentages of his sales. These percentages may help him to some extent in price making; but as they are only averages he cannot apply them to the selling price of every article he has to offer for sale. There must of necessity be some of his volume done on much less and some on much more. If he throws out all those lines that will not earn his average percentage of gross profit he might as well go out of business. If he could control his selling prices, absolutely, by a process of arithmetic, his position would be tolerably safe; but, unfortunately, arithmetic plays only a small part in his success, and this he instinctively knows.

His expenses may have been calculated as a percentage of his sales covering a period of years. It is a mistake, however, for a merchant to think that he can determine his current year's expenses either as a percentage of his sales or of his cost, by using an average rate. Fixed expense in money will run closely the same year by year, but you cannot say what the percentage will be on present monthly sales. Variable expense will likely run the same in percentage, but not the same in money. This year's actualities may be totally different from any that preceded it. What he needs to know is whether his actual day-by-day expenses (including fixed expense) are being taken care of out of his profits on day-by-day sales—not last year's average expenses on this year's actual sales.

Watch Transportation Charges

The fluctuations that go on at the sources of production, in reality, change instantaneously the values of the goods on the shelves. So do changes in transportation charges. And a radical change in either may compel an actual change in a retailer's selling price at once. Stock depreciation also goes on continually, and in consequence of these changes in value there must be a continual re-making of prices, up and down.

Sudden depreciation of goods, such as spoilage, is no different in principal from other diminishing values from whatsoever cause, but hitherto these matters have been the unrecorded facts of business.

No matter how well kept a merchant's books are, he is helpless against economic exactings if he does not, in some way, account for changing values. In some businesses it is possible to cost every sale; but even then, there are constant losses that never come into contact with a selling price with which to be measured. In other businesses it has been possible to keep stock accounts, perpetual inventories being maintained. And where these inventories are verified by a regular system of physical proof, a dependable statement of the financial position may be obtained. But fluctuating costs vitiate even this method, viewed from the standpoint of control.

Some twenty years ago L. R. Dicksee, one of the most eminent chartered accountants of England, wrote a valuable treatise on

Company Bookkeeping, in which he drew attention to the fact that merchandise on hand at a branch store could be checked very closely by a head office's adopting the practice of pricing all goods supplied to its branch at selling price. It follows that if a head office having a branch in another city can in some measure have an independent knowledge of the operations of its branch and the value of the branch's stock on hand at selling price, a manager or proprietor of any business is in no worse position with his own stock and his own progress.

And this method has been developed into an instrument of control not only as to stock, but as to business progress. A great many merchants, with large businesses, have already adopted this method and price their physical inventories at the beginning of the year at current selling prices. The difference between this figure and the cost, which should have been the value taken credit for when closing the books, is the anticipated gross profit on the goods in stock.

The merchant will now set himself to accomplish the purpose of earning his anticipated profit. And a purpose to do something definite is better than a purpose to do as well as one can. His private records will keep his immediate future in view, and he will have new conceptions of percentages as to their meaning and use.

After the first month's business he will be able to estimate his gross profits by the following equation: "As the balance of the inventory account at selling price is to the balance of the anticipated gross profit account, monthly net sales are to earned profits." Or, in other words, find the percentage of the balance of the anticipated gross profit account to the balance of the inventory account and apply it to the monthly sales.

If all mark-ups, mark-downs and inside losses have been recorded in the anticipated gross profit account, and also in the inventory account at selling price, the earned profits thus estimated will not vary much in actuality, especially if the business has been departmentalized or separate lines of similar margins segregated.

This scheme is not intended to take the place of the regular balance sheet and profit and loss statement made up on a basis of cost at the end of a fiscal year; but has much the analogy of the compass in navigation, which is in use every minute in steering the course of the ship whose course is changed from time to time by observations accurately taken.

As stated at the beginning of this article, expense must be forecasted also, in figures. A forecast in per cent. would be dangerous. It is all right and necessary to know what average percent. the expenses are to the sales for its certain purpose, that of a gauge in price making and in use with the velocity of turnover; but it is necessary to know in as near actual dollars per month as possible.

Neither fixed nor variable expenses are usually recorded in any fullness or correctness month by month in the merchant's ledger. For instance, taxes are paid once a year. Interest is paid on permanent loans at various dates. Depreciation is an evenly diminishing value of equipment, but only becomes subject to an entry on closing dates. Then there are items that should be charged every month, such as rent, lighting, salaries for management, etc.

In addition to the above there are other items that fluctuate somewhat with the business, such as wages to clerks, interest on current loans, general charges, insurance, advertising, and bad debts. The idea is to get a full stating of expense for each month, including charges that are known will have to be paid some time during the fiscal period, whether entered in the ledger or not. Some of the ledger accounts will show advance expense, so the ledger balances, so far as expense is concerned, must be modified, and the proportions not in the ledger supplied.

The full proportional stating of expense each month will be compared with the monthly estimated profits, and the difference, whether a profit or a loss, will show which way the business is heading.

(From Credit Men's Journal.)

THE INCOME WAR TAX ACT

CHAP. 33.

An Act to amend The Income War Tax Act, 1917.

[Assented to 4th June, 1921.]

HIS Majesty, by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

1. Subsection six of section seven of The Income War Tax Act, 1917, as enacted by subsection four of section five of chapter fifty-five of the statutes of 1919, is hereby repealed and the following is substituted therefor:—

1917, c. 28;
1918, c. 25;
1919, c. 55;
1920, c. 49:

Penalty
for failure
to file
returns.

“(6). Every person failing to deliver a return pursuant to the provisions of subsection one hereof within the time limited therefor shall be liable to a penalty of five per centum of the tax payable by such person; provided, however, that such penalty shall not in any case exceed five hundred dollars: and every person failing to deliver a return pursuant to any other provision of this section within the time limited therefor, shall be liable to a penalty of ten dollars for each day of default; provided, however, that such penalty shall not in any case exceed fifty dollars.”

INCOME ACT AMENDED

2. Subsection seven of section seven of the said Act, as enacted by section ten of chapter forty-nine of the statutes of 1920, is hereby amended by adding thereto the following paragraph :—

“ If any person liable to pay any tax under this Act pays as any instalment less than one-quarter of the tax as estimated by him, or should he fail to make any payment at the time of filing his return or at the time when any instalment should be paid, he shall pay, in addition to the interest at the rate of six per centum per annum provided for by this subsection, additional interest at the rate of four per centum per annum upon the deficiency from the date of default to the date of payment.”

Penalty
for short
payment.

3. Subsection eight of section seven of the said Act, as enacted by section ten of chapter forty-nine of the statutes of 1920, is hereby repealed.

Under-
stating
true
amount of
income.

4. Subsection one of section nine of the said Act, as amended by section seven of chapter fifty-five of the statutes of 1919 and section thirteen of chapter forty-nine of the statutes of 1920, is amended by striking out the words “one hundred” and substituting therefor the words “twenty-five.”

Failure to
comply
with
demands.

5. Subsection one of section ten of the said Act, as enacted by section fourteen of chapter forty-nine of the statutes of 1920, is hereby repealed and the following is substituted therefor :—

“ (1) After examination of the taxpayer's return the Minister shall send a notice of assessment to the taxpayer verifying or altering the amount of the tax as estimated by him in his return. Any additional tax found due over the estimated amount shall be paid within one month from the date of mailing of the notice of assessment. If the taxpayer fails to pay such additional tax within one month from the date of the mailing of the notice of assessment aforesaid, he shall pay, in addition to the interest provided for by subsection seven of section seven of this Act, as enacted by section ten of chapter forty-nine of the statutes of 1920, interest at the rate of four per centum per annum, upon the said additional tax, from the expiry of the period of one month from the date of the mailing of the said notice to the date of payment.”

Notice of
Assess-
ment.

6. The provisions of this Act shall be deemed to have come into effect on the first day of July, 1920.

Date of
coming
into force

TENDERING FOR AUDITS.

(From Canadian Finance, Winnipeg)

In a previous issue CANADIAN FINANCE commented upon the damaging effect upon the profession of accounting which must result if the practice of tendering for audits is encouraged the most recent offender in this respect is the Dominion Government which is now advertising through the board of grain commissioners inviting tenders for auditing the books and accounts of the Canadian Government elevator system.

If auditing is similar to selling groceries, building bridges, constructing buildings or making roads, then there can be no objection to submitting tenders, but if auditing is a profession which aims to give the public the benefit of individual skill, then a system of tendering will lead to a depreciation of standard, will put a premium on superficial work and will consequently re-act against the profession as a whole.

Some may urge that this is a one-sided statement, but is it? The man who tenders for the supplying of groceries knows definitely what he has to do to fill the contract. The bridge-builder is given specifications upon which to base his estimate, the road maker is told definitely what is expected of him when he tenders on a road-making job but not so with the auditor. all he is told is that he is required to conduct an audit and every auditor knows that the average audit is an unknown quantity so far as the time and skill required is concerned.

The introduction of a system of tendering for audits suggests a price-cutting contest which may lead to a class of service figured upon a time basis rather than upon a quality basis. The firm which submits the successful tender will be required to conduct the audit for a year. At the time of making the tender it does not know how long the audit will take. Those responsible for compiling the tender would have to estimate the time and class of assistance required. It may be urged that in instances of this kind clients get just what they pay for. This may be true but it is not a desirable state of affairs. If a tender is based on an estimate of say six weeks' work and the audit actually requires nine weeks' work, the auditor has the option of working nine weeks for six weeks' pay or omitting three weeks' work and just devoting the estimated six weeks to the audit. In either case the result is objectionable and not in keeping with the standards of the profession of accounting. Tendering for audits should be allowed to die a natural death. This much desired result will come speedily if chartered accountants refrain from bidding against their fellows.

**PROFESSIONAL EXEMPTIONS UNDER THE
INCOME WAR TAX ACT**

Doctors, dentists, lawyers, architects and other professional men or women may either state their gross cash incomes or make a return of the total gross business done, including accounts outstanding.

In addition to the statutory exemptions of \$1,000 for unmarried men, \$2,000 for married men and \$200 for each dependent child under 18, medical men are allowed to deduct certain expenses incurred in their business in computing their taxable incomes. If a medical man lives in his own home he is allowed to deduct a reasonable amount from his gross income to meet the carrying charges of that part of his home devoted to his profession. The amount thus deductible is usually a matter of adjustment between the doctor and the local collector. If the doctor rents the house in which he carries on his practice, he is also allowed to deduct a reasonable portion of the rent paid annually. Each taxpayer makes his own claim and each case is treated by the collector on its merits.

In the case of a doctor owning or renting his own residence but practising at another address, no allowance whatever is made for the expenses of his private dwelling, but full allowance is made for the expense in keeping up the doctor's places of business. If there are any office assistants the amount of their salaries is deductible from the gross income. But in the case of a maid in a doctor's residence assisting at the telephone or the door, her full salary is not deductible, but a reasonable portion thereof, probably 25 per cent., is deductible as being part of the professional expense.

Allowance for Motors

As the owners of motor cars medical men are in class by themselves. Reasonable allowance is made for the upkeep of their motor cars and for depreciation as well, the government conceding that the motor car is an essential requirement of every practising physician or surgeon. On the other hand, dentists, lawyers, druggists and others are allowed nothing on this score. Instruments purchased by medical men, x-ray outfits, books and equipment generally used in practice are recognized as essentials and a depreciation allowance of 10 per cent. in most cases, is made in computing the taxable income. Full allowance is made for the outlay in medicines, drugs and laboratory expenses, if any.

Where the return shows the gross cash income no allowance is made, of course, for bad debts. But where the gross amount of business done is shown, allowance is made for such bad debts as have been actually written off during the year. In no case, however, will any allowance be made for debts incurred prior to January 1st, 1917.

Real Estate Income

If the taxpayer, in addition to his professional fees, is in the receipt of an income out of real estate, this is also taxable. Thus, if he owns a house renting for \$720 a year, for example, he is permitted to deduct all carrying charges, including municipal taxes, water rates, insurance charges, repairs and depreciation. If these expenses are less than the income the difference is taxable, but if the expenses in any given year have exceeded the income, the taxpayer is not permitted to deduct this loss from his other sources of income.

The depreciation allowances on real estate holdings are $2\frac{1}{2}$ per cent. on the cost of a brick building and 5 per cent. of the cost if the building is of frame construction. If the professional man has dabbled in stocks his losses or his gains are not taken cognizance of, but if he has received dividends from any Canadian corporation his income from this source is taxable in the same manner as the surtax applies to ordinary incomes, namely, 1 per cent. of all dividends in excess of \$5,000 and up to \$6,000, and 2 per cent. on the excess of \$6,000, and so on up.

Money spent by a professional man on improving his education, post-graduate courses, experiments, fees in clubs and societies, and the like, are not deductible in any cases.

Individual Returns

Lawyers, architects, surveyors and others in the receipt of fees for their services, are allowed, in addition to the statutory exemptions, to deduct all the expenses of their offices, providing they are reasonable. In the case of law and other firms each individual member is required to make a separate return and attach to it a statement of the firm's profits showing the percentage which the taxpayer received.

Similarly dentists and druggists are allowed to deduct all the expenses of their places of business from the gross receipts, providing always that they are reasonable.

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THE INCOME WAR TAX ACT AMENDED

ELSEWHERE in this issue we publish in full the 1921 Amendment to the Income Tax Act. The penalty originally of failing to deliver a return within the time limited therefor was 25% of the amount of the tax payable. This has been reduced to 5% such penalty not to exceed \$500 and every person failing to deliver a return pursuant to any other provision of this section, within the time limited therefor, is liable to a penalty of \$10 for each day of default, not however to exceed \$50.

The penalty of shortpayment was originally 6% per annum. Taxpayers are now required to pay in addition, additional interest at the rate of 4% per annum upon the deficiency from date of default to date of payment.

There is now no penalty for understating the true amount of income.

The penalty for not giving information or making false statements has been reduced from \$100 to \$25 per day.

The Department is now required to send a verification or otherwise of the taxpayers returns. If any additional tax is found due, the estimated amount must be paid within one month and if not paid, in addition to the interest provided for above, interest at the rate of 4% upon the additional tax will be charged.

The above amendments are retroactive and come into effect on the 1st of July, 1920.

USE AND OCCUPANCY INSURANCE

WHILE we believe that most accountants to-day understand Use and Occupancy Insurance, we are of the opinion that a little explanation along this line may come in handy.

Use and Occupancy Insurance is designed to provide for maintenance of revenue at a manufacturing plant or mercantile establish-

ment, where production or sales have been stopped, either wholly or in part, as a result of fire.

The existence of this form of insurance at time of disaster helps concerns carrying it to tide over the trying situation after a fire, by supplying revenue necessary to offset the loss of production or sales and meet the numerous expenses which continue after a fire, and enables a concern to maintain its organization, pay dividends and protect its credit.

Use and Occupancy Insurance covers loss of net profits, fixed charges, such as rents, taxes interest on bonds and notes, royalties, the cost of heating, lighting and watchman service and salaries of employees under contract, or those whose services must be retained in order to resume operations promptly.

This form of indemnity contemplates a per diem allowance on a full annual basis, meaning 300 working days, or, in the case of public utility concerns 365 days. Loss is computed from the day of occurrence of fire to time when buildings and equipment could, with ordinary diligence and dispatch, be repaired or rebuilt, is not limited to day of expiration of policy and does not await actual resumption of operations.

The ordinary fire policy protects capital invested in buildings, machinery, equipment and stock.

Use and Occupancy Insurance protects the income from such invested capital.

Loss of income due to inability to manufacture or sell goods may be much greater than actual property damage.

Protection of Income is equally important to the manufacturer or merchant as protection of capital.

SALES TAX RULING

A RECENT ruling has been made by the Department of Customs and Inland Revenue with reference to a sales tax which had been paid by the manufacturers in goods sold to a person who afterwards became insolvent.

It appears that the manufacturer, in making his return to the Collector of Inland Revenue, included the amount of the 2 per cent sales tax which was due on the goods supplied. Subsequently, the purchaser became insolvent, and the manufacturer asked for permission to deduct from his next return to the department, the amount previously forwarded as the sales tax on the transaction referred to.

In making the decision, the department stated that the sales tax, as imposed, falls on the purchaser, and the Act designates the agency of collections as being through the medium of wholesalers or

manufacturers. Sales tax which remains unpaid by purchasers is, therefore, due the Crown, and when the purchaser becomes insolvent, when owing taxes on purchases, such unpaid taxes constitute a preferential claim on the insolvent estate.

In the event of the assets of the insolvent failing to satisfy the amount of the sales tax, the department has ruled it will not be refunded to the vendor.

INCOME TAX RULING

A RULING upon the status of commercial travellers under the income tax laws has been issued by the Department of Finance at Ottawa as a result of complaints lodged by various commercial travellers associations throughout the Dominion as to the manner in which the taxation branch was treating their traveling expenses in connection with the income tax returns.

Under the new ruling, commercial travellers must show all moneys received by them from their employers. They will be allowed as a deduction from the moneys so received all expenses actually and necessarily incurred in the conduct of their business. From such expenses there will be deducted the sum of \$1 for each day's travelling, this amount representing personal and living expenses, which, although usually included in a traveller's expenses, are not directly attributable to his business.

CAN A TOWN DISTRAIN AFTER AN ASSIGNMENT ?

HAS a municipality the right to distrain for taxes after an assignment under the bankruptcy act ?

At Osgoode Hall Toronto, Registrar Holmestead directed that the chattels of the Village Inn, Oakville, be delivered to the trustees without prejudice to the municipality's claim.

If the trustee, after selling in the ordinary way, denies this priority right, Oakville, in all probability, will appeal to the judge-in-bankruptcy.

The point is a new one under the bankruptcy act.

On the day following the Village Inn's assignment, Oakville seized the chattels for tax arrears. The question to be answered is: Was the municipality within its rights in doing so ?

INTERESTING TAX DECISION

THE retailer is not a manufacturer in the general acceptance of the word. This decision which will be of interest to accountants generally, is embodied in the judgment handed down in the exchequer court of Canada in the test case of King vs. Pedrick & Palen, merchant tailors, Ottawa.

The case was one in which the Crown sought to collect a 2 per cent. manufacturers' tax on all transactions effected by this firm since May 19, 1920. The defendants disputed the Crown's designation of their business as that of "manufacturers."

In giving its decision for the clothing firm the court rules that the word "manufacturer" must be taken in its commonly accepted meaning. It would be doing a violence to the English language to hold for instance a humble seamstress or dressmaker, making a few dresses for customers to be a manufacturer. There is but one sane conclusion to be arrived at, if one is to be guided by common sense, and that is that the retailer is not a manufacturer in the general acceptance of the word.

BUSINESS ECONOMY

THE Bank of Commerce superintendent for Manitoba and Saskatchewan, Mr. C. W. Rowley, aptly outlines the basic principle on which business now has to be conducted. He says:

"The disposition of the many during the last few years has been to demand 'Let me see your profit statement,' whereas it should have been 'Let me see your cost sheet.' The true test of success is business is not profits, but economy. Profits often come from good fortune or conditions over which one has no control, for a fleeting period of inflation. A business structure built solely on the profit sheet of a moment will not stand—good business, to be steady and sure, must be erected on the solid rock of economy. The merchant, manufacturer, jobber and business man know that losses are bound to come, and in times of prosperity should provide for these losses, as the law of average is bound to overtake him."

REVIEWS

MUNICIPAL ACCOUNTS—Third Edition, by John Allcock, F.S.A.A. (Volume XXI. of "The Accounts' Library Series.") Price, 11s 6d, post free 12s.

This work is based on the methods adopted by some of the leading municipalities in England. The entire system of Bookkeeping and Checking of Municipal Accounts is dealt with, and facsimiles of all Books and Forms recommended are given. Published by Messrs. Gee & Co., 14 Queen Victoria St., London E.C. 4, Eng.

PERSONAL

Messrs. Harvey Richardson, Cole & Robertson, Edmonton, announce removal of their office to 604-5 Agency Building.

Messrs. Clarkson, Gordon & Dilworth, Chartered Accountants, Toronto, announce that they have opened an office at Montreal, Que., in the Bank of Toronto Chambers, St. James Street, with Mr. Robert Shiell, C.A., as resident partner.

Mr. W. B. Campbell, C.A., of Messrs. Price, Waterhouse & Co., has been transferred from the Detroit to the New York office.

Mr. William H. Willis, C.A. late of London, Ont., has opened an office for the practice of his profession at 1400 Broadway, New York.

Messrs Rorie & Small, Vancouver, have opened an office in the Federal Building, Prince Rupert with Mr. George Rorie C.A. in charge.

Mr. Albert E. Nash C.A. late of Messrs Nash & Nash, Edmonton has joined the staff of Messrs Clarkson, Gordon & Dilworth, Toronto.

Mr. Hector W. Fielden C.A. announces the opening of an office at 401 Flanders Building Philadelphia, Pa. for the practise of his profession.

Messrs Mackay Irons & Co. New York announce that Mr. Douglas H. Strachan C.A. has been admitted a partner with office at 165 Broadway, New York.

Mr. R. Burleigh Taylor, C.A., wishes to advise his clients and friends of his change of address from 97 St. James Street to 212 McGill Street, Montreal.

Hubert Reade & Company, chartered accountants, Winnipeg, announce that P. A. Gibbs, C.A., is admitted to partnership, and that the firm name remains unchanged.

His Majesty the King of the Belgians has been pleased to confer upon Mr. W. Sidney Ronald, C.A. of Winnipeg the National Relief Medal in recognition of his generous services towards Belgium during the war.

Mr. W. M. McKinnon, C.A., of Ontario, formerly with Price, Waterhouse, Peat & Co., Paris, France, announces that he has commenced business on his own account, with office at 9 Rue Lincoln, Paris, France.

Messrs. Oscar Hudson & Co. Chartered Accountants of Montreal, Toronto, Winnipeg and Vancouver, announce the opening of an office in Canada Life Building St. John, N.B. with Mr. Arthur E. Cox, C.A. as resident partner.

Mr. A. C. Neff, who has for many years carried on business as a chartered accountant under the firm name of A. C. NEFF & CO., has taken into partnership Mr. Ian P. M. Robertson, C.A., under the firm name of NEFF, ROBERTSON & CO. Mr. Robertson is a member of the Society of Accountants in Edinburgh, and of the Institute of Chartered Accountants of Ontario, and has been associated with Mr. Neff since 1913.

Mr. B. F. Griggs, C.A. announces that he has retired from the firm of Ronald Griggs & Co., Winnipeg and will practise on his own account with office at 406 Notre Dame Investment Building, Winnipeg.

Mr. P. Dalziel, C.A., announces that he has opened offices at 802-803 Herald Building, Calgary, Alberta, where he is practising on his own behalf as a Chartered Accountant. Mr. Dalziel has had wide experience in the winding up of companies and in insolvency work, having been Liquidation Manager at Calgary for the Trusts and Guarantee Company, Limited, for the past eight years. He has been appointed an Authorized Trustee under the Bankruptcy Act, and will devote considerable attention to bankruptcy practice.

Messrs. Price, Waterhouse & Co. announce that the association between Messrs. W. B. Peat & Co. and themselves in South America, Egypt and Holland, has been extended to cover Continental Europe and South Africa, and that in future they will represent Messrs. W. B. Peat & Co., in Canada, the United States and Mexico. The countries in which offices are maintained by the associated firms are as follows: United States, Canada, Mexico—Price, Waterhouse & Co. Great Britain—Price, Waterhouse & Co., W. B. Peat & Co. France, Belgium, Holland—Price Waterhouse, Peat & Co. Argentina, Brazil, Chile, Uruguay—Price, Waterhouse, Faller & Co. Egypt, South Africa—Price, Waterhouse, Peat & Co.

Herbert Meade Cherry

Lt.-Col. Cherry, President of the Institute of Chartered Accountants of Manitoba in 1913, died in Shaughnessy Military Hospital, Vancouver on July 6th, 1921.

Lt.-Col. Cherry went overseas in 1914 with the 8th, Bn. C.E.F. and after service in France was transferred to the Auditor-General's Department in London where his accounting ability enabled him to render very valuable service to his country.

Montreal, February 2nd, 1921.

The Editor,
Canadian Chartered Accountant,
Toronto, Ont.

Dear Sir,—

In clearing out some last years papers I turned up the following puzzle which might interest some of our members.

Take any number of pounds shillings and pence providing the pounds do not exceed 10 and the pence do not exceed the pounds reverse and subtract, reverse again and add and the answer will always come L12 18S 11D as below.

L	S	D		L	S	D	L	S	D
6	3	4	reverse and subtract	9	11	8	9	10	6
4	3	6		8	11	9	6	10	9
<hr/>				<hr/>			<hr/>		
1	19	10	reverse and add		19	11	2	19	9
10	19	1		11	19		9	19	2
<hr/>				<hr/>			<hr/>		
L12	S18	D11	answer	L12	S18	D11	L12	S18	D11
<hr/>				<hr/>			<hr/>		

This may be an old stunt. if so no harm done otherwise the question could be put why does it always come the same. Wishing every success to the Canadian Chartered Accountant yourself in particular believe me.

Yours Truly,

J. DONALD ANDERSON.

SIGNED STATEMENTS.

The Editor,
Canadian Chartered Accountant,
Toronto, Ont.

Toronto, May 3rd, 1921.

Dear Sir,—

1. The matter of signing financial statements, is being brought to my attention in a manner that I do not approve of, and the thought occurred to me, that a line in the "Canadian Chartered Accountant," may bring other views on the subject.

2. The Bank, Income Tax Department, Business Profits War Tax. Mercantile Agencies, and various other organizations make a request for a signed auditors statement for a Company, and this to me, seems a request impossible to comply with.

3. Signed statement being the original of the report, is a financial document, and it is quite obvious that there can be only

one. Numerous unsigned copies, of course, can be given without inconvenience.

4. The point I wish to emphasize is that if Chartered Accountants, are to give signed statements to everybody that asks for one, there will be no end to the amonut of work and confusion that will come from it, and I think a stand should be taken by members of the profession, to eliminate all this.

5. When stating to the Bank, that our firm, as a general practice, only gave one signed copy of the Annual Statement, I was told that we were the only firm of Chartered Accountants, out of about one hundred, that the bank did business with, that took this stand.

6. The matter seems to me, a very important one, and for this reason, I would appreciate any publicity you could give to these views.

Yours truly,

JOHN CLARKE, C.A.

Montreal, September 16th, 1921.

The Editor,

Canadian Chartered Accountant,
Toronto, Ont.

Dear Sir,—Would you be good enough to publish the following article in the next issue of the Canadian Chartered Accountant : The members of the Association of Accountants in Montreal have recently formed a Golf Association open to all members of the Association in Montreal. The first competition was held at the Beaconsfield Golf Club on September 14th, some twenty of the members taking part. At a meeting held after the competition the following officers were elected :

President—Mr. James Hutchison,

Vice-President—Mr. W. Garth Thomson,

Secretary-Treasurer—Mr. S. R. Campbell,

With the following Committee :

Messrs A. F. C. Ross, C. A. Hodgson, John Paterson and D. Binny Robertson.

The President, Mr. Hutchison, has very kindly offered to donate a trophy to be played for annually by the members, and it is expected that great interest will be shown in the competitions to be held next year.

It is to be hoped that the step taken by the Montreal Association will be followed by sister societies throughout the Dominion and that other professions will follow the lead of the Chartered Accountants, and that inter-Club matches may result from the formation of similar Association."

Yours very truly,

Montreal Chartered Accountants Golf Association,

S. R. CAMPBELL,

Secretary-Treasurer.



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF ONTARIO

(Incorporated 1883.)

Rutherford Williamson, President.

T. Watson Sime, Secretary.

W. J. Vallean, Registrar.

ANNUAL MEETING

The 38th annual general meeting of the Institute of Chartered Accountants of Ontario was held at the Royal Connaught Hotel, Hamilton, June 24th last, and was largely attended, representatives from all parts of the province being present. The work of the past year was reviewed by the president, Mr. Robert J. Dilworth, of Toronto, whose address was of much interest.

The election of officers for the ensuing year resulted as follows: President, Rutherford Williamson; First Vice-President, Arnold Morphy; Second Vice-President, Francis G. Jewell. Secretary-Treasurer, T. Watson Sime; Council, R. Easton Burns, Kingston; Arthur A. Crawley, Ottawa; Robert J. Dilworth, J. Wyndham Eddis, George Edwards, all of Toronto; Christopher A. Fleming, Owen Sound; Fred Page Higgins, Toronto; Francis G. Jewell, London; Arnold Morphy, Gustavus M. Mulholland, Arthur C. Neff, Frank E. Roberts, T. Watson Sime, Henry J. Welch, Rutherford Williamson, all of Toronto. Representatives on Council of the Dominion Association of Chartered Accountant: A. K. Bunnell, W. R. Morris, A. C. Neff; Auditors, W. K. Colin Campbell, Kris A. Mapp; Registrar, William J. Vallean, Toronto.

Lieut.-Col. H. M. Cherry, C.A. son of Mr. and Mrs. J. A. Cherry, of Toronto died at Shaughnessy Military Hospital, Vancouver, on July 6th.

He enlisted in August, 1914, was in France one year, and then became assistant general auditor of the Canadian forces. His military services ended in August, 1920. His health suffered in the first year of the war, and required constant care afterwards.

Col. Cherry, had practised in Winnipeg and Brandon, and was opening an office in Vancouver.

Duncan B. MacDonald, C.A., aged 48, partner in the firm of Oscar Hudson & Co., died at the Western Hospital after a short illness from cancer. Born in Giengarry, Ont. for several years he was accountant with the Spanish River Pulp and Paper Mills. Nine years ago he came to Toronto. Surviving are his widow, eight boys. and two daughters.



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF
BRITISH COLUMBIA

(Incorporated 1905.)

G. F. Gyles, President.

J. B. Woodthorpe, Secretary-Treasurer.

CHARTERED ACCOUNTANTS OF B. C. MEET

THE annual meeting of the Institute of Chartered Accountants of British Columbia, was held in Vancouver recently.

The following members were elected to serve on the council for the ensuing year, W. R. Carmichael, A. L. C. Chalk, H. C. Chiene, A. H. Edwards, J. D. Forsyth, G. F. Gyles, G. E. Winter, J. B. Woodthorpe and J. H. Young.

Messrs. G. E. Winter and A. H. Edwards were elected to represent the institute at the annual meeting of the Dominion Association of Chartered Accountants.

At a council meeting held subsequently the following officers were elected, viz: President, G. F. Gyles; vice president, H. C. Chiene; secretary-treasurer, J. B. Woodthorpe.

THE CHARTERED ACCOUNTANTS STUDENTS' SOCIETY
OF BRITISH COLUMBIA

SCHEDULE OF MEETINGS—SEASON 1921-1922
INTERMEDIATE DIVISION

October 25—Consideration of previous examination questions on
AUDITING.

November 1—Consideration of previous examination questions on
BOOKKEEPING.

November 8—Considerations of previous examination questions on
ACCOUNTANCY.

November 15—Consideration of previous examination questions on
ACCOUNTANCY.

November 22—Consideration of previous examination questions on
COMPANY LAW.

November 29—Consideration of previous examination questions on
COMPANY LAW.

December 6—QUESTION NIGHT.

(Members to bring any questions on doubtful points arising in the course of their studies.)

FINAL DIVISION

- October 25—Review of Notes on Auditing. (Montgomery.)
November 1—Problems in Accountancy. (Greendlinger.)
November 8—Problems in Accountancy. (Greendlinger.)
November 15—Review of Notes on Law (All).
November 22—Review of Notes on Law (All).
November 29—Review of Notes on Law (All).
December 6—Questions.

NOTE—A member of the C. A. Literary and Debating Society will be in the chair at each meeting. The Committee has in view for the balance of the season a series of meetings to be held every fortnight, which will include debates and lectures, a mock creditors' meeting and a Prize Essay night. Arrangements will be made for this immediately after the examinations.

**CHARTERED ACCOUNTANTS' LITERARY DEBATING SOCIETY
OF B.C.**

SCHEDULE OF MEETINGS—SEASON 1921-2

1921

- Oct. 13—HAT NIGHT—Members present to draw from a hat a subject on which to speak for five minutes.
Oct. 27—PAPER—Half hour paper by A. L. C. Chalk, Esq., on "Rudyard Kipling," followed by general discussion.
Nov. 10—DEBATE—Formal debate on resolution to be drafted at meeting held on Oct. 13th.
Nov. 24—LECTURE—Lecture by L. Haweis, Esq. (University of B.C.) on "Oriental Extravagance in Literature," followed by general discussion.
Dec. 8—MOCK PARLIAMENT—Arrangements to be made at meeting held on Oct. 27th.
Dec. 22—PRIZE NIGHT—Ten minute original papers on any subject by members. Prize to be given for the paper adjudged best by the meeting.

1922

- Jan. 5—GENERAL DISCUSSION—On a subject chosen at meeting held on Dec. 8th.
Jan. 19—PAPER—Half hour paper on a literary subject by a member of the Society, followed by general discussion.
Feb. 2—DEBATE—Formal debate on resolution to be drafted at meeting held on Jan. 5th.
Feb. 16—LECTURE—Lecture on a literary subject, followed by general discussion.
Mar. 2—SPEECH NIGHT—Seven minute speeches (not papers) by members on subjects to be chosen by the speakers.
Mar. 16—MOCK TRIAL—Arrangements to be made at meeting held on Feb. 2nd.
Mar. 30—ANNUAL BANQUET.



THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF SASKATCHEWAN

(Incorporated 1908.)

F. J. Pilkington, President.

Thomas Lax, Secretary.

The Annual meeting of the Institute was held on May 27th, 1921, at Regina, a good number of members being present. The President, Mr. B. R. Masecar, presiding. The presidential address reviewed the activities of the Council during the past year and brought forward a number of questions for discussion and for the opinion of the general meeting. The matter of joining with the Ontario Institute in carrying out the proposed educational course was thoroughly discussed. During the discussion it was suggested that the University would look favourably upon a proposition to put on an extra mural course in accounting. It was decided, however, to take no action at the present but to have the new Council secure all available information regarding same. A proposal to change the date of the annual examinations was brought forward, the feeling of the meeting being that fall examinations are preferable, it was decided to secure the opinion of the student bodies before making a recommendation. Dissatisfaction was expressed at the delay of the Ottawa authorities in getting out the rulings on Taxation. The delegates to the Dominion Convention reported on the various matters taken up. The members support the action of the delegates in striving to have the proceeding of the Convention made available to all members. V. J. Ferguson, of Saskatoon, and T. Lax, of Regina, were made Fellows. The representatives on the Dominion Council were instructed to extend an invitation to hold the Convention in Saskatchewan in 1923. The election of officers resulted as follows: President, F. J. Pilkington, Yorkton; Vice-President, G. C. Rooke, Regina; Secretary, T. Lax, Regina; Council, J. Neilson, Saskatoon; B. R. Masecar, Saskatoon; W. E. Hodge, Moose Jaw; C. E. Walker, Regina, Librarian, C. E. Walker, Regina; Auditor, J. D. Dawson, Regina; Representatives on the Dominion Council, B. R. Masecar, Saskatoon; F. J. Pilkington, Yorkton.

The University Board of Examiners in Accounting have announced the results of the April examinations as under:

Passed the Final Examination:

M. Clements, Regina;

A. Mason, Regina;

P. F. Heal, Moose Jaw;

W. O'Neill, Kelowna, B. C.

W. J. Hyde, Regina;

W. L. Thompson, Moose Jaw;

W. J. Weston, Saskatoon;

Supplementals being granted to T. M. Bryce, Saskatoon, in Municipal Accounting; C. H. Mann, Regina, in Municipal Auditing.

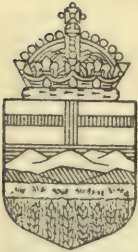
Passed the Intermediate Examination:

W. C. Angus, Regina;	R. R. Thomas, Regina;
J. H. Bertram, Saskatoon;	W. T. Scott, Saskatoon;
W. E. Brooke, Regina;	C. H. Stevens, Regina;
T. B. Ferguson, Saskatoon;	G. W. Stevens, Prince Albert;
J. Merrick, Saskatoon;	C. E. Sugden, Regina;

M. C. Tomlinson, Saskatoon

Supplementals being granted to J. H. Jefferson Moose Jaw in Law; Miss I. Lynn, Saskatoon, in Financial Auditing.

The Scholarships in connection with the Intermediate Examination were awarded as follows: First, W. E. Brooke, Regina; Second, R. R. Thomas, Regina.



THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF ALBERTA.

(Incorporated 1910)

Frank M. Harvey, President.

Cecil E. Race, Secretary.

ALBERTA C. A.'S ANNUAL MEETING

THE annual meeting of the Institute of Chartered Accountants of Alberta was held on May 21. Features of the meeting were, the revision of by-laws, and the receiving of the report of the board of examiners. The by-laws were revised to bring them into harmony with the recommendations of the committee on uniformity, appointed at the Dominion convention. The results of the examinations showed that four candidates had been completely successful in the intermediate, and four in the final, while supplemental examinations had been granted to two intermediate candidates and to four others final candidates, as follows:

Intermediate: Passed—B. I. Jennett, D. A. Ross, A. W. Northover and H. D. Phillips.

Granted supplementals—C. A. Fidler, in mathematics and auditing and mercantile law; and C. H. Latham in company law.

Final: Passed—G. L. Bagnall and S. T. Weaver (with prize); W. S. Johnstone and R. W. Gardiner.

Granted supplementals—W. F. Bishop in advanced bookkeeping No. 1 and advanced bookkeeping No. 2; E. A. Stockwell in advanced bookkeeping No. 1; W. C. Wood in advanced bookkeeping No. 1; R. B. Rushworth in advanced bookkeeping No. 3 and law of executors.

The four successful candidates were elected members of the Institute.

The following were elected officers of the Institute for the succeeding year:

President, Frank M. Harvey.

First vice-president,—M. C. McCannell, Edmonton.

Secretary—Cecil E. Race, Edmonton.

Auditor—Harry O. Patriquin.

Councillors—Messrs. Edmond Thompson, Edmonton, J. B. Watson, Calgary J. H. Williams, Calgary.

Messrs. Thompson and Harvey were appointed representatives to the Dominion convention which meets in Vancouver in August and Mr. Harvey was appointed representative of the Institute on the senate of the University.

Another important decision was that, in order to meet the convenience of the students and accountants, it was decided to ask the senate of the university to alter the date of examination in accountancy from May to December. If this request is granted there will be a full set of intermediate and final examinations conducted toward the end of November or first week in December of 1921.

A FULL four-year course in commerce leading to the degree of Bachelor of Commerce will be added to the curriculum at the University of Alberta next fall. This was decided upon at the spring meeting of the university senate.

The entrance tests for the new course will be the same as in arts, and the first year's work will be identical with that of the arts course. The remaining years, however, will cover the specialized subjects of accountancy, economics special mathematics and other subjects in direct connection with business practice. First and second year work will be taken up in 1921-22, with instruction by present members of the professional staff, and new appointments for the department will not be made until the following year.

THE CANADIAN CHARTERED ACCOUNTANT

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SOME CONSIDERATIONS INVOLVED IN THE * VALUATION OF GOODWILL.

By Herbert C. Freeman.

SO many definitions of goodwill have been given by the courts and by writers on economics and accounting that it appears to be almost as futile to attempt a new definition as to quote those already on record. The subject is, however, one of considerable interest and the opinion may be ventured, with all respect, that a new interpretation, let us say, rather than a definition, of the term is not untimely.

Stated as an asset in corporate balance-sheets, goodwill has been an object of grave concern to orthodox accountants since accountancy has been a profession. A natural repugnance to intangible, possibly ephemeral assets, combined with the feeling that the goodwill was inseparable from the business and, therefore, should not be stated as a distinct asset, led conservative men to take the position that the item of goodwill in a balance-sheet was an undesirable one. As well set a price upon the specific properties of a material, as distinguished from the value of the material itself, as place a value upon that which converted a mere schedule of property and debts into the balance-sheet of a going concern. To those whose economic creed remained sufficiently undisturbed by more modern thought, goodwill might almost as well be regarded as a liability as an asset, for it represented the inequality which would attract competition and thus in due course reduce the business to the inevitable dead level towards which was the trend of the reward of capital in all static communities. Viewed from this aspect, it was certainly an asset to be amortized as speedily as possible.

* A paper read at the annual meeting of the American Institute of Accountants, 1921.

Nevertheless the hard facts persisted that business men were willing to give valuable consideration to acquire goodwill, that the courts recognized that goodwill had a specific and separate value although inseparable from the business to which it adhered and accountants were frequently and continually called upon to determine that value. In the series of industrial consolidations which took place during the period from 1860 on, the necessity for recognizing the variations between the proportions shown by the earning powers of the respective constituent businesses and those shown by the tangible assets contributed by them to the consolidation resulted, apart from any other actuating motive, in the establishment of valuations for goodwill, so-called, which appeared in the balance-sheets of the consolidated companies, in many cases merged with the values of other fixed assets.

Then followed the period of corporate promotions in which the manager-proprietor invited the investor-proprietor to take a participation in a business which he, the manager-proprietor or possibly his family for generations before him, had built up, on condition, however, that the goodwill value should be adequately recognized.

A formula for the determination of the value of goodwill, applicable to such cases, had been generally accepted and given legal sanction, but very considerable latitude remained in the application of the formula, and nothing approaching uniformity of practice had been developed. This fact, in conjunction with the almost complete discretion given to directors, acting in good faith, to determine the value of a company of any property acquired resulted in goodwill valuations being set up which in many instances exceeded in amount the entire value of the tangible assets of the company. In a few cases the directors acted upon the strength of specific appraisals of the goodwill made by accountants. In the majority of instances, however, accountants were not consulted as to the value of the goodwill, which was determined by the bankers and confirmed by the appraisal of a committee of independent appraisers, generally merchants of high standing, upon whose report the directors acted. The value thus established accordingly had due legal authority to support it, in the sense that the courts would not question the judgment of the directors and that the stock issued for the property, including goodwill, would be fully paid and the validity of its issue upheld. There was, at any rate, nothing in the procedure which could in any way mislead an investor or a speculator, and an accountant could certify to the accuracy of the balance-sheet without any misgivings as to the goodwill valuation. So many elements enter into the determination of market value that it is perhaps incorrect to say that the stock market passed judgment upon the basis of capitalization of goodwill in each particular case in

establishing the price-level for the stock issued, in effect, against goodwill. In a broad sense, however, this statement is probably justified.

Accountants thus became accustomed to accept, at any rate without protest, goodwill valuations in the determination of which they may have had no part and the amounts of which they in all cases might not be prepared to defend. That this is the case is evident from a table given in a study of industrial flotations made from Johns Hopkins University by Kemper Simpson (*The Capitalization of Goodwill*, pp. 44-45) in which is shown the "probable percent earned on the common stock, after deducting preferred dividends from net profit," in the case of forty-six companies in which on the average the preferred stock represented seven-tenths of the tangible assets. In two cases the percentage is zero; in eleven cases it is five per cent, or less; in twenty-one cases it is between five and ten per cent; in five cases it is between ten and twenty per cent.; in six cases it is between twenty and thirty per cent. and in one case it is over thirty per cent.—obviously too great a variation to be capable of substantiation by a uniform rule, uniformly applied.

It is to be feared that in the minds of many the item of goodwill in the balance-sheets of these companies was looked upon as merely a "balancing figure," of no particular significance, although understood to bear some relation to "earning power." The possibility that investors, small investors particularly, might be misled by the sale of certificates representing stock of so many dollars' par value, issued for a mixed aggregate of assets of which intangibles constituted a predominating or considerable part, did, indeed, lead to the passage of no-par-value stock laws in New York and several other states, it being one of the manifest intentions in the minds of the authors of these laws that stock of this character should be issued in the acquisition of property of which the value was so much a matter of arbitrary determination that no definite measure for it could be established. Whether this has been accomplished with any beneficial effect so far as the small investor is concerned does not enter into the present discussion.

It may be conceded, however, that the corporation which carried no valuation for goodwill in its balance-sheet was generally regarded as being conservatively capitalized, while the one in which goodwill was carried at any substantial value was frequently referred to as having "watered stock."

From this point of view, then, the revenue acts of 1917 and of 1918 penalized conservatism and put a premium on "watered stock," so-called, in permitting the inclusion of goodwill in invested capital, within certain limitations, not only in cases in which "payment has been bona fide made therefor specifically as such in cash or tangible property" (when indeed there could be very little

question of its exclusion), but also in cases in which it had, prior to March 3, 1917, been also acquired by the issue of stock. The sections of the law (title 1, sec. 207 of the law of 1917 and title 111, sec. 326 of the law of 1918) are too well known to call for quotation here.

The principal limitation placed by the law upon the amount at which goodwill shall be included in invested capital is that it is not to exceed the actual cash value at the time of such purchase. Since in the vast majority of cases an independent cash offer for the goodwill at the date of purchase is not in evidence to substantiate the value at which it is sought to include the goodwill, the problem revolves itself into a valuation by formula or computation. The supplementary limitation placed by the law upon the value, viz : a maximum of twenty per cent. of the capital stock outstanding on March 3, 1917, in the act of 1917, and twenty-five per cent. (including other intangibles) under the act of 1918, might appear to render the determination of the actual cash value a matter of secondary importance, but the revision of tax returns for the year 1917 and subsequent years now in progress by the treasury department is being made on a basis which indicates that the proof of actual cash value is not to be regarded as any perfunctory matter. The point of view is somewhat changed. Most of the legal cases having to do with the valuation of goodwill arise from the desire of state governments to establish a value of goodwill in taxing the estates of decedents ; now the federal authorities are interested in ameliorating the gross inequity arising from the failure of the law to permit any valuation of goodwill in cases in which no capital stock had been issued for it and, incidentally, in collecting taxes. Accountants on the other hand are taking a distinctly more liberal view of goodwill. One is strangely reminded of Pope's line concerning the "monster of so frightful mien" which "we first endure, then pity, then embrace." The embrace, however, must be given and received with due decorum. One must not permit a tax law or a series of tax laws to change him into a philanderer, even with intangibles ! The question of the valuation of goodwill must be looked at from a strictly disinterested point of view, not with regard solely to taxes, and our reasoning on the subject must be as nearly abstract as the case will permit.

The time is opportune, however, to reconsider somewhat the nature of goodwill and to examine the basis or bases for its valuation.

The conception of goodwill has undoubtedly grown broader from time to time, the extension of the idea apparently following to some extent the increasing complexities of modern business, with the consequent application of the term to conditions of the most varied character. A tendency would appear to have developed to treat goodwill as synonymous with earning power to the extent that such earning power exceeds the ability to yield a certain arbitrary rate of

income upon the tangible capital invested in a business. The development has taken place to some extent in a circle; the ordinarily accepted measure of the value of goodwill in its simple form was some multiple of the excess of the average profits over interest on capital and management remuneration; therefore excess earning power and goodwill were one and the same thing. The degree of fallacy involved in this method of approaching the subject has undoubtedly resulted not only in the valuation as goodwill of earning power arising from causes entirely unrelated to goodwill, but also in failure to recognize the existence of goodwill of undoubted value in cases in which, for one reason or another, the customary formula yielded no result. Before proceeding to discuss some matters of detail arising in connection with the valuation of goodwill according to the method generally accepted, the considerations particularly involved in some of these special cases will be mentioned. It will be seen that the same questions arise, though they are generally disregarded, in almost every case of valuation.

Let us first refer to certain of the definitions of goodwill which have been accepted as authoritative. Lord Eldon said in the earliest case recorded dealing with goodwill—*Crutwell v. Lye* (1810. Ves. 335): "The goodwill which has been the subject of sale is nothing more than the probability that the old customers will resort to the old place." Lord Cranworth said in *Austin v. Boys* (1858, 27 L. J. Ch. 714): "When a trade is established in a particular place, the goodwill of that trade means nothing more than the sum of money which any person would be willing to give for the chance of being able to keep the trade connected with the place where it has been carried on." Lord Justice Lindley said in *The Commissioners of Inland Revenue v. Muller, Lim.* (1901, A. C. 217): "Goodwill regarded as property has no meaning except in connection with some trade, business or calling. In that connection I understand the word to include whatever adds value to a business by reason of situation, name and reputation, connection, introduction to old customers, and agreed absence from competition, or any of these things, and there may be others which do not occur to me."

Mr. Justice Story says "goodwill may be properly enough described to be the advantage or benefit which is acquired by an establishment beyond the mere value of the capital, stock, funds or property employed therein, in consequence of the general public patronage and encouragement which it receives from constant or habitual customers, on account of its local position or common celebrity, or reputation for skill or affluence, or punctuality, or from other accidental circumstances or necessities, or even from ancient partialities or prejudices." (Story, *Partnership*, 7th ed., P. 99.)

Lord Eldon's definition, taken as a somewhat colloquial expression—and it seems to some extent to have been so intended—covers the ground as effectively as any of the others. All the

legal definitions indicate very clearly that the thought in the mind of the court was the essential identity of goodwill with reputation, commercial standing, location and all other favorable conditions leading customers to deal with a business. There appears, however, to be only the authority of custom to bridge the gap between the definition and the almost invariable acceptance by the court of the rule that the value of the goodwill is measured by some multiple of the excess of the average annual profits for a term of years past over interest on the average capital employed during that period and management remuneration. In a retail business of a simple character this rule, it is true, may be an entirely acceptable one, but the least departure in the nature of the business from stereotyped form involves immediately the possibility either that what is being valued is something other than that covered by the definition or that the rule of valuation is being extended to cover cases to which it does not apply, except with such reservations as practically to call for a new rule.

It appears to be illogical, in the first place : to value the trade connections of a business, not in terms of volume of business or number of customers, more particularly not in terms of the growth of these factors over a period of years, but, instead, on the basis of a net resulting profit from the business, to the production of which a number of circumstances may have contributed which have no direct bearing upon the continued enjoyment of public patronage or trade connections

Let the case be considered of two stores in a town, located in equally favorable positions, enjoying approximately equal advantages and handling substantially the same amount of business at the same rate of profit. Let it be assumed that the management of one of these stores decides upon a definite policy of building up trade by various means which involved for the time being increased expense or reduced gross profits and that the other store is satisfied to make the same profit upon its old volume of business. The two stores might over a series of years, continue to earn the same amount of profit as before, and yet it could hardly be contended that the business which had attracted more customers and built up its volume of trade had not measurably increased its goodwill over that of the more conservative store. The objection may be made that in order to hold the increased volume of trade the more progressive business must continue to operate at the restricted percentage of net profit and that accordingly its goodwill, though admittedly greater in terms of the legal definition, has no greater value than that of the other business. This, however, is theoretical and not consistent with general experience. The net profit of the growing business will tend eventually to outstrip that of the other. A more valid objection might be that a part of the expenses of the growing business should not be charged against income for determination of goodwill. Under

the conditions assumed the increased expense or loss of revenue would probably not be represented by any specific item or even group of items, and this objection is in reality a recognition of the weakness of the accepted formula.

On the other hand, it is a well-known fact that although the profits of retail establishments at any rate did not diminish during the war period, the increased amount of business on which these profits were earned represented a smaller number of transactions with an actual loss in number of customers. It is a notorious fact that a real and effective "buyers' strike" set in in 1920 directed mainly against the retail stores. Without in any way going into the merits of the case, it will surely be admitted that the goodwills of retail businesses generally were never weaker than at the close of a period when, measured according to the conventional method, they would have shown the highest valuations.

In certain specific trades, the value of goodwill is based entirely on volume of business—in the case of saloons (chiefly under English practice) upon the volume of purchases and in the case of dairies upon the volume of sales. It may be a factor in these cases, first, that the volume is much more definitely determinable than any other element and, second, that given a certain volume, the normal profits can practically be computed by anyone familiar with the business. These instances are rather exceptions to the general rule. It is my opinion, that the value of goodwill is rather to be based upon the capitalized value of the normal net profit per unit sold, computed on the number of units sold during the last fiscal period, increased or decreased in the proportion which the number of units sold during the last period bears to the average for, say, the last five periods, or which the average for, say, the last three periods bears to the average for the last five or seven periods. This suggestion is put forward somewhat tentatively and perhaps to some extent as a basis for discussion. It is submitted, nevertheless, to serve as an indication of some measure of value which corresponds more accurately to the particular subject of valuation, unless goodwill is frankly to be identified with capitalized value of excess earnings based upon past performances. Unless some formula constructed broadly upon the lines indicated, or with the same object in view, is adopted, it is difficult to see what can be the validity of any valuation of goodwill determined, for example, upon the basis of results shown by the trading of the past five years.

It is recognized that the formula suggested in itself raises points of difficulty. The determination of the proper unit may in certain cases present an obstacle, but very few businesses are operated without the development of statistical data based upon units of quantity, measurement or activity and these will readily lend themselves to the purpose in view.

As to what constitutes the normal net profit per unit some difference of opinion may exist. The figure to be used is intended to

represent the profit per unit in excess of interest on capital and management remuneration, under normal conditions, that is to say, with prices neither inflated nor over-deflated and with properly balanced costs. This profit may be greater or less than the actual average during the period used to determine quantities, depending upon any abnormal conditions existing in the trade or in the particular business, or upon contemplated changes in the conduct of the business, but as far as possible the element of conjecture or estimate should be eliminated and actual results used.

In arriving at both profit per unit, amount of capital upon which to charge interest and rate of interest to be charged, various points will present themselves for consideration. It is hoped that the comments which follow upon these points will be of interest, apart from the suggestions made with regard to the necessity for a revision in the orthodox formula, as bearing upon the determination of the figures required for the purposes of that formula.

First with regard to the profits upon the basis of which the value of goodwill is to be computed, it is obvious that profits or losses of an extraneous character must be excluded in arriving at the base. Extraordinary profits upon the resale of raw material or in the case of a retail establishment, upon the sale of merchandise in bulk must be excluded. As to whether losses of a similar character should similarly be excluded depends upon the circumstances in each case, it being necessary to determine what relation the original purchase bore to the regular trading account of the business and the conditions which demanded that a sale be made.

The results of discontinued divisions of the business should be excluded but in doing this it is important to see to what extent the fixed charges and expenses of the business were absorbed by a distribution which threw any part of them against the portion of the business which requires to be disregarded, and to decide how far it may be necessary to reintroduce these expenses into the charges against the remaining departments.

The necessity for the valuation of goodwill frequently arises in cases of reorganization in which the values of assets other than goodwill are being restated. Leases formerly not carried at any value may be valued and set up; fixed property may be reappraised; mineral rights or timber lands may be increased from a nominal or low valuation to one based upon surveys of the property and estimates by engineers of its value; property formerly leased may be acquired in fee; and changes of various kinds either in actual conditions or in statement of values subject to depreciation or amortization may be made. In arriving at the profits upon the basis of which the goodwill valuation is to be determined, cognizance must be taken of all such charges and charges made for depreciation, amortization, depletion of minerals and timber and for rentals and other items based upon the new values and conditions rather than the old, since

it is under these conditions that the income of the business will in future be determined. ;

In the case of proprietary articles, where advertising is an important element of selling expense, it will frequently be found that much more intensive advertising is done in certain years than in others. An advertising campaign on a large scale is entered upon in one year or season with the object of giving the business great momentum. The expenditures for the succeeding year or two are on a more moderate scale and then before the momentum is lost a new campaign is undertaken. This method has undoubtedly lost favor during the past few years when equalization of profits from year to year has been so desirable from the taxpayer's point of view, but where it is found to have been followed it is important that complete cycles of years from the point of view of advertising appropriation should be taken in the statement of profits for goodwill purposes.

The question of the effect upon profits of shrinkage in merchandise values is one which presents some difficulty in considering profits for goodwill valuation, and the unprecedented extent to which this element enters into the accounts of practically every business during the past year and that now current will render it particularly necessary to decide whether or not it shall be ignored. In the valuation of goodwill for the capitalization or sale of a business the problem would probably be dismissed, perhaps properly, by treating the years 1920 and 1921 as entirely abnormal and excluding them from the basis of the calculation. In doing this, however, it will be necessary to consider whether or not the preceding years were not years of such exceptional profit as to render them almost equally unreliable for the measurement of goodwill value.

Cognizance should unquestionably be taken of ordinary fluctuations in merchandise values. They represent conditions which are inseparable from business operation and if goodwill is to be measured by excess earning power, they must be taken into account. When it is remembered that the reduction in inventory value at the end of a period seldom if ever reflects the total shrinkage in value, some part of which is of necessity absorbed in the loss of gross profit on current transactions and, further, that appreciations in value, while never taken in inventorying merchandise, are nevertheless just as certainly absorbed in current transactions, it is evident that no justification exists for disregarding reductions in inventory values.

The question of what is to be done with regard to the years 1920 and 1921, however, cannot altogether be dismissed. Goodwill will require to be valued as an asset of decedents in many estates falling in in 1921 and the years immediately following. The state is hardly likely to be willing to treat the profits of the war years as abnormal; and since the invariable practice in valuing goodwill in the surrogate's court appears to be to capitalize excess earning power (a method which in this class of cases, particularly, appears to pre-

sent the possibility of an injustice since the skill of the decedent may have contributed to the result to a proportion not to be measured by an allowance for salary) it appears only equitable that the exceptional hazards should be set against the exceptional gains.

In determining the amount of capital upon which an initial return is to be computed and charged against profits before ascertaining the basis for goodwill valuation, adjustments must necessarily be made corresponding to those made in the amount of profits or in arriving at the profit per unit as indicated earlier in this paper; that is to say, the value of assets subject to depreciation, depletion, rental, etc., must be brought into harmony with the conditions which will obtain in the situation for the purposes of which the goodwill is being valued.

The assets should be carefully scrutinized for any items of a character extraneous to the business. If a reserve fund is carried invested in gilt-edged securities, the return on which is lower than the rate of initial return which might reasonably be charged on capital invested, it is proper to exclude both principal and income from the bases of calculation. It is obvious, however, that as to investments or assets, even of an extraneous character, which yield an income substantially equal to a commercial return on capital, no purpose is served by eliminating them and the income upon them.

In considering generally the question of unproductive assets and of assets from which the income is negligible or which may even represent a dead expense, much caution must be exercised before it is decided to eliminate them. The ownership of such properties may indirectly contribute to the profits from the active part of the business. Interest may never be paid on the bonds of a country club owned by an hotel, but the country club facilities may be very strong factors in bringing patronage to the hotel. A theatre used for vaudeville or "legitimate" drama in a chain of motion-picture houses may be an unprofitable venture, but its ownership may prevent its use by other proprietors for motion-picture purposes in competition with one of the profitable houses in the chain. Instances of this kind can be multiplied, and similar conditions affecting manufacturing and trading concerns will frequently be met.

On the other hand, the question of treatment of investment in and expenses of carrying excess facilities for manufacturing or other purposes will in many instances need to be considered. A chemical company, let us say, constructs a plant for the manufacture of some product of the nature of a proprietary article in which it has previously built up a business. A reasonable estimate can be made of the increased volume of business which can be attained in, say, five years and the company is advised to construct a building and put in underground tanks and pumping system, together with certain other portions of the required equipment adequate to handle the expanding volume, leaving only a part of the machinery and appliances to be

added to from time to time as the volume increases. The cost of insurance, maintenance and general overhead of the temporarily unused facilities is clearly not a charge against profits for the determination of goodwill nor is interest on the excess capital invested to be deducted therefrom. Even assuming that the valuation of the goodwill is required for the purposes of a sale and that the facilities are at the time of the sale still in excess of the requirements of the business, the goodwill valuation should proceed upon the basis of the facilities actually employed from time to time and the purchaser should make a reserve against the combined appraised value of the property and goodwill sufficient to cover the carrying charges on the excess facilities up to the estimated date of their employment in the business.

Having determined the profits of the business and the amount of the tangible investment, the question of the rate of initial return to be allowed on the investment must be considered. The proper rate would appear to be the normal rate at which capital could be secured, representing the whole of the net tangible assets, at the date as of which the goodwill is to be valued. This will depend largely upon the ratio of the earnings to the assets, the nature of the business and the character of the assets. It is well recognized that there are certain limits within which capital can be raised by the sale of bonds, and certain other limits within which preferred stock can be sold and so on. These limits naturally, vary very considerably at different times, depending upon the condition of the money market and of the investment market. If at a given time, for example, capital can be obtained for an industrial by the issue of a 7% preferred stock to the full amount of the tangible assets, provided the dividend has over a series of years been earned, on the average, at least four times, then seven per cent. would be a proper rate to charge on the tangible assets, upon the valuation of goodwill as of that time, where this condition as to earnings was met. If under other money-market conditions a five per cent. bond could have been sold to an amount equal to, say, forty per cent. of the tangible assets with a six per cent. preferred stock for a further forty per cent. and a common stock on which it was expected to pay ten per cent. issued for the balance of the tangible assets and the goodwill, provided certain ratios of earnings to interest charges and dividends could be shown, then six and one-half per cent., approximately, would be a proper rate to use. The significant point is, that the conditions to be observed are those ruling at the date as of which the goodwill is being valued and not those existing at the time of any subsequent review of the valuation. This point is of special importance in connection with the valuation of goodwill as invested capital under the tax laws of 1917 and 1918. It must also be kept in view that the rate to be used must be one which is applicable to the entire amount of the tangible assets at the risk of the business. The legal rate of interest and the rate ruling on loans, even

unsecured loans, is not necessarily any criterion. It is interesting to note, however, that in a number of decisions in the New York courts, the rate of six per cent. appears to have been adopted without question. On the other hand, the treasury department (Bulletin 10-20-777, A. R. M. 34) appears to consider ten per cent. a proper rate, which may be reduced to eight or nine per cent. in stable business—this without particular reference to the date as of which the valuation is to be made or the extent of the margin of safety as measured by the ratio of earnings to the required interest on capital. Apart from any other consideration, the actual facts attendant upon the capitalization of goodwill must be recognized, and if a preferred stock at a fixed rate of dividend was sold to third parties to an amount equal or substantially equal to the tangible assets, as happened in a great many cases, the rate of return on such preferred stock should govern.

In the absence of any such conclusive evidence, the nature of the assets as well as the ratio of the earnings to the tangible assets, must be taken into account. For example, an investor would provide capital equal to the total tangible assets of a mercantile business at a lower rate if a substantial part of the capital were represented by a left building, readily available for rental to other tenants, than if the entire tangible assets consisted of merchandise, accounts receivable and fixtures. The same would be true of a chain-store business in which a substantial part of the assets consisted of store properties located in various cities throughout the country. In other words, the freedom of any substantial part of the capital from the hazards of the particular business would tend to attract capital at a lower average rate. A combination of a tannery with a shoe manufacturing plant, of a throwing plant with a silk-weaving mill, of a foundry with a machine shop are examples of cases in which the more ready adaptability of a part of the assets to general uses will tend to reduce the rate at which capital could be obtained for the more specialized business.

There remains to be considered the percentage at which goodwill should be capitalized, or, using the general expression, the number of years' purchase to be paid for the goodwill. This is by far the most debatable point in connection with the matter of goodwill valuation, and the one as to which the greatest exercise of judgment is required. The problem has been somewhat complicated by the thought which has undoubtedly existed in the minds of accountants, that goodwill was an asset which had to be amortized, and the values set upon it have accordingly been fixed with the purpose of providing out of income for a proper return on the capital value and for the writing off of this latter item. One writer on the subject even holds that if five years' purchase of goodwill is paid, the goodwill should be written off in five years. This obviously provides for no return on the investment in goodwill during this period. That this is

fallacious is manifest from the fact that, other things being equal, the older the business the more stable is the goodwill value, although on the amortization hypothesis the goodwill should have disappeared in such a business, and only a business which had just reached maturity would have a goodwill, the value of which would in turn tend to disappear. It is true that mortality among businesses is by no means a negligible factor, but probably as many failures and reorganizations are due to the inadequacy of capital to handle the volume of business springing from an increasing goodwill as are due to the disappearance of goodwill.

An important distinction to be considered in the valuation of goodwill is that between what may be called institutional goodwill and goodwill which attaches solely to a particular product. Heinz, for example, could as easily sell one hundred and fifty-seven varieties as fifty-seven, and the goodwill would attach to them all. If the human race ever achieves the unhappy state of absorbing nutriment in tabloid form, Heinz will undoubtedly supply us with tabloids. On the other hand, the goodwill which attaches to the well advertised brand of "Danderine" does not in any way attach to the equally well advertised brand of "Cascarets" which is a product of the same company, and neither of these brands helps or is helped by Bayer's "Aspirin," more recently acquired by the company. The goodwill of the proprietors of these branded goods cannot be said to be institutional. If we progress to the point where the race becomes independent of these remedies, the goodwill attaching to them cannot be transferred to some product more appropriate to our requirements in that era. We have seen the goodwill of the name "Studebaker" survive the passing of the spring vehicle and even the sale of the farm wagon business and continue with a value many times increased as an institutional goodwill. These are by no means isolated cases but can be taken as representing a condition. It may, therefore, be accepted as a principle that the value of an institutional goodwill is worth a greater number of years' purchase than a goodwill based on brands or trademarks.

The goodwill of a business which is country-wide should be valued upon the basis of a greater number of years' purchase than that of a more localized business. The goodwill of a chain-store business, spread over a large number of cities, should be measured by a larger multiple than that of a single store or even of a chain of stores in one large city. The goodwill of a mailorder business, dealing with customers direct in all parts of the country, upon a basis which necessarily implies particular confidence on the part of the customer should similarly be measured by a reasonably large multiple. The goodwill of a single theatre, except where it has somewhat of a neighborhood or institutional character may be small. "The play's the thing!" But as one of a circuit or chain of amusement houses it may have a more permanent value.

In the case of any business, manufacturing or trading, it may perhaps be said that the following factors, in addition to those already mentioned, all tend to produce a goodwill of a relatively high number of years' purchase: (a) a wide distribution of product in proportion to the volume; (b) a wide diversity of products sold under one institutional or trade name; (c) a business in staple lines in general demand by the public, as distinguished from one in specialties of limited use.

Unless the effect upon the term of years' purchase of goodwill of the respective conditions of increasing, stationary or decreasing volume is expressed by some modification of the usual formula on the lines suggested in this paper, it will be apparent that it must be dealt with as an independent factor. It would appear to be beyond question that the goodwill of a business showing a steady increase in volume and profits is worth a greater number of years' purchase on an average of past profits than one showing more uniform volume and profit and, a fortiori, that one showing a declining volume, and profit.

Particular consideration must be given to the possible effect of legislation or tariff upon the future of a business. Other things being equal, a business which is little dependent on tariff protection will have a goodwill value measured by a greater number of years' purchase than one which is more likely to be adversely affected by changes in tariff rates. The danger of a business being prohibited by law is one which would reduce the goodwill value possibly to a negligible amount. It would be impolitic in these days even to suggest any businesses which might be so affected!

A condition arising from a development almost within the present generation, in the form of business organizations, has to be taken into account in fixing the number of years' purchase of goodwill, viz: that the more general adoption of the corporate form, the vast increase in the number of corporations of which the securities are distributed among a relatively large number of stock-holders, and the increase in the number of trained experts available for the management of properties, all tend towards greater possibilities in the perpetuation of enterprises and the establishment of permanent goodwill. It is also necessary to recognize the fact that investments in goodwill, recognized and frankly expressed as such, are more sought after under existing conditions than under the conditions which obtained when many of the legal and accounting precedents by which we have been governed were established. An increase in demand is reflected in general by an increase in price.

While the courts do not seem for the most part to have approved valuations based on more than five years' purchase, the court, on the second appeal of *Von Au v. Magenheimer* (126 App. Div. 257) held it not to be an error to refuse to charge that in estimating goodwill by the net profits the number of years cannot exceed five, and

in that case, in which the goodwill of a number of candy stores was involved, the multiple used was six years' purchase. In valuing the goodwill of Tiffany & Co., the court approved a multiple of ten years purchase (Matter of Moore, 97 New York 238). This case was decided as recently as 1916 and represents probably the maximum valuation which has been approved by the courts.

The number of years' purchase which can be applied to businesses of various classes is not a matter upon which it is possible to dogmatize. No classification by kinds of business is possible, and each case, it would appear, must be considered on its merits. In view of the conditions to which reference has been made, however, it is felt that the approximate maximum of five years set by most writers on the subject is no longer justified. The extension of this multiple to eight years or even in extreme cases to ten years is fully justified, having in view the stability and apparent permanence of goodwill values established under modern business conditions by many industrial corporations dealing on a national or an international scale in commodities of a staple character.

It will be recognized, it is hoped, that this paper attempts to deal with only one phase of the subject of goodwill and even as to that phase is intended chiefly to stimulate discussion of the subject. A very comprehensive and useful textbook on the general subject of goodwill will be found in Goodwill and its Treatment in Accounts, by Dicksee and Tillyard, though certain opinions expressed in this paper will be found to be somewhat at variance with these authors. The article on goodwill by Mr. Sidney S. Dawson in Lisle's Encyclopaedia of Accounting will also be found very interesting and many of the standard textbooks on general accounting deal with the subject of the treatment of goodwill in accounts in a manner which renders unnecessary any reference to this aspect of the matter in a paper of this kind.

PUBLISHED BALANCE SHEETS AND ACCOUNTS. *

By Lawrence R. Dicksee, M.Com., F.C.A.

In introducing the lecturer, the chairman said: "Ladies and Gentlemen,—It is a convention that a lecturer requires an introduction to his audience, but why so well-known a man as Professor Dicksee should require an introduction to any audience is not clear to me. I feel much more in need of an introduction myself. My excuse

* A public lecture delivered at the London School of Economics and Political Science on 7th October, Mr. Wilson Potter, Vice-Chairman of the Shipping Sub-Committee for Commerce Degrees of London University, in the chair.

for being here is that I am one of those city men who recognize the need of increased opportunities for commercial education in the City of London, and as one who has taken a small part in the institution of the commerce degree. There are various theories in education, including the advocacy of the classical as against the commercial. I have a preference for a classical groundwork, but the essence of an education is summed up in the saying of a well-known man, that it consists of the training of an individual to make clear and accurate deductions from facts. A great deal of the trouble of to-day arises from the impossibility of the average individual doing anything which requires clear and accurate thinking. I know of no one who is better able to impart knowledge of that subject than Professor Dicksee, who has the advantage of being in practical touch with his subject, as the head of a firm of accountants, Messrs. Sellars, Dicksee & Co., in London. He was Professor of Accounting in the University of Birmingham from 1902 to 1906, and is also the author of several books on auditing, accounting, and business methods and management. He has recently been appointed the Sir Ernest Cassel Professor in the University of London on the subject of accountancy and business methods and management, and is, therefore, the first holder of this new chair."

The lecturer: "Mr. Chairman, Ladies and Gentlemen,—I have chosen as the subject of my lecture to you this evening 'Published Balance Sheets and Accounts,' partly on account of its importance and partly because it is not a highly technical subject, and is, therefore, not unsuitable for consideration at the beginning of a session, but chiefly because of the widely divergent views as to what a published Balance Sheet ought to be. We may, therefore, I think, very usefully consider the question in its various aspects, and also consider how far the criticisms which are sometimes passed upon published Balance Sheets and accounts are reasonable, and how far they are unreasonable as being really impracticable. We find that it is said upon the one hand—and this, perhaps, of the two is the view more widely held—that a Balance Sheet should be a statement showing exactly the financial position of an undertaking, containing facts and nothing but facts showing exactly how that undertaking would pan out if the business were to be discontinued and the affairs of the business wound up. At the other extreme we find it suggested that a Balance Sheet means practically none of these things, and that it is simply a statement prepared by the book-keeper when he has finished his work at the end of a year, or some other period, and then simply puts together in the form of an annual statement a sort of list of the uncompleted transactions.

"If we take the first view as being our standard of what a Balance Sheet ought to be, it might be regarded more or less as a statement of fact, although even then there might be widely divergent views as to what certain kinds of property would realize

if sold, before any attempts had been made to find a purchaser for them. If we take the second view, it is possible to regard the Balance Sheet as a statement of fact, again up to a point ; but of a different kind of fact. We must then regard it rather as a statement showing on the one hand what the undertaking has received and has not repaid, and is, therefore, liable to account for ; and on the other hand a statement of what it has done with the moneys so received and not yet refunded. There again, to some extent, matters of opinion must crop up, and our Balance Sheet even on that basis cannot be regarded as a cold statement of absolute facts. Whichever way we look at it, we must expect to find questions, so to speak, mixed up with our statements of fact, and the opinion must in the first instance clearly be the opinion of those who are rendering this statement of fact—the accounting parties.

“When the Balance Sheet is audited, it becomes the duty of the auditor not to ‘certify’ that the Balance Sheet is a true statement of fact, because that, as I have just said, would be impossible as regards at least a part of it ; but he is called upon to express an opinion as to whether the statement as put before him by the accounting parties properly discloses the position of affairs. If his opinion differs from theirs, it is his duty to report in what respect it differs ; but it is important to bear in mind that the auditor’s report is to a very large extent a matter of opinion, and that the expression ‘auditor’s certificate,’ which is so very commonly used, is a misnomer. One can certify facts, but one cannot certify matters of opinion, and as a matter of fact the law does not require a Balance Sheet to be certified, but it does require the auditor to report whether in his opinion it is properly drawn up.

“Supposing we were to take as our standard of what the ideal Balance Sheet ought to be the view that it ought to show what the position will be if the business is disposed of and its affairs are wound up, then clearly, if its possessions are at the time when we prepared the Balance Sheet likely to be sold at something appreciably above their cost price, we are looking forward to a profit on realization. We are expecting that the position will turn out better on a realization than it would have done had there been no rise in prices. If we frame our Balance Sheet upon those lines, it must necessarily result in its showing a profit up to date which includes a profit that has not yet been realized, and is, therefore, not at present available to be divided in money. In so far as that profit may be expected from the sale of what we may call the general equipment of the undertaking—what is technically spoken of as the “fixed assets” of the undertaking, the things that it does not try to turn into money in the ordinary course of business, but has acquired with the object of using them in their existing form as a means of increasing the profits of the undertaking—in so far as we include possible profits on the realization of equipment, we shall be

including as profits actually already made profits which there is no intention whatever of ever making on the assumption that the business is not being disposed of or shut down, but is to be continued.

"Accordingly, when, as at a time like the present, the tendency is for prices to rise and to go on rising, a Balance Sheet so prepared would show very large profits, which would be largely, if not entirely, illusory. At other times it might be that, with falling prices, Balance Sheets so prepared would show serious losses; that is to say, the existing equipment might perhaps only be saleable at a price very considerably less than what it originally cost, even after making due allowance for the fact that it is partly worn out and, therefore, that we should not regard it as being to-day worth the original cost. Its realizable price might be less still. If we were to be debarred from dividing profits derived from the practical working of our business merely because equipment could be bought more cheaply to-day than when we purchased our equipment this would certainly not make it easy for us to find new capital for expansion; it would not make it easy for other similar undertakings to find new capital for new enterprises. But, apart from that, these losses which a Balance Sheet so framed would show would be just as illusory as the profits would have been after a period of rising prices; that is to say, they would be hypothetical losses which would be sustained if we were to dispose to-day of something which we have no intention whatever of trying to sell. In our attempt, therefore, to produce a Balance Sheet which will get into close touch with actual facts, we find that we have entirely defeated our purpose and have got right away from the true facts of the position, the essential fact being that the business is a going concern which we are going to continue to carry on so far as we can anticipate, and which we have every reason to suppose that we shall be able to continue.

"Then there is another point. If we frame our Balance Sheet so that it may show as profit increases of wealth which, even if turned into money, are manifestly of a non-recurring nature (and a profit derived from the sale of one's equipment clearly could only be made once, and not annually), the effect would be to encourage by this form of accounting the payment of very large dividends after a period of rising prices and no dividends at all after a period of falling prices. We should find that not even the soundest undertaking could maintain anything like a uniform rate of distribution among its proprietors by way of dividend, and that again would make it very difficult for us to get capital for new enterprises.

"Then, again, if we keep to this first ideal of a Balance Sheet which represents absolutely realizable value, we have got to cut out altogether a number of items which, if we adopted the second ideal,

we should certainly include in our Balance Sheet along with our possessions, or 'assets' as they are commonly called. In almost every kind of business activity certain kinds of expenditure occur, the full benefit of which is not received entirely within the year (or other accounting period) in which the expenditure takes place, so that at the date of the Balance Sheet the whole of the advantage to be derived from that expenditure is not exhausted; there is still a surviving value in that expenditure which, with varying degrees of confidence, according to circumstances, we expect will be received in future years—sometimes a few years, sometimes many years. Now, clearly, expenditure the benefit of which is entirely exhausted within one week, is a proper charge against the profits of one week. Expenditure which is entirely exhausted within one year is similarly a proper charge against the profits of that year. Expenditure which is not entirely exhausted until, let us say, the end of 20 years, is equally properly chargeable over the longer period of 20 years. Theoretically at least, we ought to ascertain what benefits will be received from this outlay in each accounting period during which it is any advantage to us whatsoever, and charge the corresponding portion of the cost against each accounting period. That is what is commonly done in practice with such items as plant and machinery and the like, which we know will last very much longer than one year, and the cost of which is spread over a longer period—a period approximately as nearly as one can tell, and as nearly as experience will help one to determine, to the time during which that plant and machinery continues to be useful as equipment and therefore, to serve its function as a profit-earner. If we accept that as a reasonable way of dealing with expenditure of this character, it necessarily follows that in each successive Balance Sheet prepared during the time that the effective life of that equipment continues, we must bring in such part of the original cost of the equipment as we consider is not already worked out or worn out—that part which we consider survives and for that reason is more properly chargeable against future profits than against current profits. If we work upon these lines, it necessarily follows that from time to time such outlays will appear in our Balance Sheets at figures quite different from the then realizable values of the articles represented by the outlay.

"We cannot possibly frame a Balance Sheet which will carry out both ideals; we must choose which of the two is the one that we propose to adopt. In every case where we are proposing to continue the business and there is no reason to suppose that we shall not do so, and no reason, humanly speaking, to suppose that the future profits of that business will not be able to bear the burden that we are throwing upon them, that seems to be a perfectly sound method, and it has at least the advantage of charging against the gross earnings of each year their fair share of the

burden that has to be borne by all of the years. The system, therefore, tends in the direction of producing statements of profit from year to year that will be as uniform as the varying circumstances of the case would permit or justify. At least, we are not going out of our way to make the profits fluctuate more wildly than the conditions of trade necessitate.

"Shareholders, in the nature of things, for the most part prefer uniform dividends. They are quite willing that distributions out of profits should tend to increase, but they are always inclined to be disappointed and frequently inclined to grumble, when the rate of dividend falls. Accordingly, those who are responsible for the preparation of accounts and for the successful conduct of a business, very naturally adopt in the main a procedure that tends in the direction of avoiding large distributions of profits, which they know it will be impossible to maintain in the future. But although shareholders as a body like uniform dividends, as representing fixed income, they are not always very consistent, and, accordingly, we commonly find that where the dividend that it is proposed to declare is markedly less than the amount of the undivided profits available to be divided, pressure is brought to bear by the shareholders for the dividend to be increased, and directors as a rule endeavour to resist that pressure where, in their opinion, the standard of distribution proposed is too high to be maintained. To assist them in resisting that pressure, it is a very common thing to transfer a certain (or rather an uncertain) part of the profits actually earned to a reserve, thus reducing the amount of undivided profits shown. The device, although exceedingly thin to the initiated, seems to serve its purpose quite well in practice. We rarely find shareholders clamouring for a dividend to be paid out of a reserve, although at times, when the reserve gets very high, they may look forward to and expect, a free distribution of shares out of reserved profits; but the practice of transferring what we may call 'surplus profits' to reserve is generally effective, as permitting current dividends to be kept within the safety limit. Nevertheless we do not always find that this particular method is employed by directors to keep dividends within what they consider to be desirable limits. Instead of transferring profits to a reserve that is clearly shown upon the face of the Balance Sheet as something which has to be accounted for in the future—or what is called a liability—the practice has grown up, and during recent years appears to be decidedly upon the increase of piling up what are sometimes called 'internal reserves,' sometimes 'indisclosed reserves,' and sometimes 'secret reserves.' The term 'secret reserve' does not seem to be much used save by those who oppose this particular kind of policy and regard it as being highly undesirable.

"The effect of the policy is to withhold from those to whom the Balance Sheet may be sent the fact that the undertaking has made

certain profits which have not yet been divided. The directors do not 'account' to the extent of such reserves. On the face of it that might seem to be entirely improper and highly unjustifiable, but it has been held that there is nothing whatever illegal about such a practice so long as it is not contrary to the regulations of that particular company. Most companies in their regulations take power for their directors to make such reserves as they think fit, without specifying whether those reserves are to be shown upon the face of the Balance Sheet or not. The only thing that the Courts have so far objected to in the matter is that they have decided that the existence and the extent of these reserves must not be concealed from the company's auditor. They throw upon the latter the grave responsibility of determining whether he shall make any disclosure to the shareholders with regard to the matter. This seems very clearly to suggest that the auditor will not do so without good reason, so that as long as the directors are acting in good faith these internal reserves are apparently recognized as being a reasonable business policy.

"Such reserves may be made in a great number of ways, all of which will indirectly affect the published Balance Sheet. Excessive sums may be charged against current profits to provide for contingencies, such as the wear and tear and obsolescence of equipment, possible future bad and doubtful debts, the deterioration in value of stock in trade or investments, and so on. Almost everybody applauds the systematic and drastic writing down of goodwill in the case of a successful company. The policy is, no doubt, excellent in itself, but we have got to remember that the more successful the undertaking may be, the more valuable does its goodwill become. Although, therefore, we may write goodwill off against profits, and out of the Balance Sheet as rapidly as the earning capacity of the undertaking will permit, we are deliberately preparing a Balance Sheet which under-estimates the value of that particular asset. The policy may be justified on the ground that even in the most successful business the value of goodwill is subject to wide fluctuations, because even in the most successful business profits fluctuate; but, however that may be, the effect of writing down goodwill is to state this particular asset in our Balance Sheet at less than we believe it to be worth, and to leave a corresponding amount of money (if the profits are realized profits) in the control of the directors for future purposes.

"We may also build up internal reserves by over-stating the total amount of our liabilities, by including reserves for possible future claims or in excess of what we really believe to be the actual extent of our commitments at the present time. Again, various kinds of outlay, which result in acquiring new possessions, whether by way of buildings or plant or investments, or what not, may be and sometimes are charged direct against profits as a working expense,

with the result that that which has been acquired as a result of this outlay does not come into the Balance Sheet as an existing asset at all. The result of this kind of policy is that it leaves us without any formal record in our accounts of the property that we have purchased, the existence of which ought to be carefully verified from time to time.

"The strongest argument in favour of reserves, whether disclosed or undisclosed, is the impossibility of saying with absolute certainty what the future has in store for us. We are only justified in putting into our Balance Sheet as assets that which we think we shall in the future receive real value for, either when it is disposed of and turned into money, or as the result of using it in its existing form. We can never say with absolute certainty what future benefits we shall derive from our present possessions. We must, therefore, leave a wide discretion in the hands of those responsible for the management of the business as to the value that they put upon these items as being fair and reasonable. Similarly, although not as a rule to such a great extent, it is not practicable in the case of a going concern to say with absolute certainty what claims may be made upon it in the future arising out of events that have already happened. We must permit the management, therefore, to provide an adequate and even a generous amount for future contingencies which, in their judgment, not only are likely to happen, but also may happen. We cannot, and ought not to, complain, but rather to congratulate them if their general policy is always to be upon the safe side, and to aim at disclosing a position in their published Balance Sheets that is certainly not better than the true position.

"We see then that we must give the accounting parties a very wide discretion as to how they frame their accounts, and that in the nature of things they cannot put before us a statement of facts in connection with things that have not yet happened, and that things which may happen in the future will react upon what is, or is thought to be, the present position, in so far as they have not been provided for or have been over-provided for. In spite of all this we must draw the line somewhere, or we shall find that we are driven to the conclusion that the Balance Sheet may mean little or nothing, and would, therefore, be useless.

"It is only shareholders who have a statutory right to see a Balance Sheet. On the other hand, most companies go much further than that and issue copies of their Balance Sheets to practically anybody who likes to ask for one, and some even go to the extent of advertising their Balance Sheets so as to make them, as far as possible, common knowledge. There must clearly be some responsibility resting on those who publish Balance Sheets for the information they contain, even although you may not find their responsibility defined in the Companies' Acts. We find it mentioned, however, in a rather forceful way in the Larceny Act, where it

is provided that it is a misdemeanour to publish a Balance Sheet with intent to deceive a member or a creditor, or with intent to induce anyone in the future to become a member or a creditor, so that the Balance Sheet is not a purely domestic document.

"In ordinary practice Balance Sheets seem to be used, and to a surprising extent to be relied upon, not merely as a means by which the rank and file of the shareholders may test the degree of success with which a board of directors has conducted the affairs of the undertaking, but also as a means of enabling the initiated to determine what is the true value of the company's shares from time to time. It is very doubtful whether a Balance Sheet can be of much use for this latter purpose. The true value of the shares in a company depends, no doubt, to a certain extent upon what return would be likely to be made to shareholders in the event of the company being wound up, but it depends certainly to a greater extent upon the income derived from the possession of the shares and the degree of probability of that income being maintained. The Balance Sheet as ordinarily prepared gives very little idea as to what shareholders may expect to receive if the company were wound up. It will give some idea as to the probability of the business being successful in the future, and it should enable us to determine whether the resources of the undertaking are sufficient to enable it to meet its debts as they fall due. We may, by looking at a Balance Sheet which has been prepared with reasonable honesty, satisfy ourselves that it is not likely that the company will be obliged to discontinue operations because it is unable to pay its debts, or we may form the conclusion from looking at the Balance Sheet that there is a greater or a less probability that it will be obliged to stop for want of money ; but we can form no very useful idea from looking at any Balance Sheet as to whether the profits of the next few years will be as great as those of the last few years. You must remember that perfectly sound undertakings sometimes carry on for a year, or even more, with very little profit, or perhaps even at a loss. The existence of sufficient reserves will, however, enable them to tide over lean years, and still to go on paying dividends. That we may form a useful idea of the position of an undertaking from its Balance Sheet is all that we are able to say.

"The Balance Sheet should show in reasonable detail the grouping of its assets. Most Balance Sheets do that. Some certainly do not ; and as an illustration of one that does not, I should like to read you an extract from a Balance Sheet of a well-known company. Explaining an outlay of upwards of 5¼ millions sterling, it does it in five lines of print, as follows :—'By land, water rights, reservoirs, effluent works, buildings, plant, machinery, office furniture, goodwill, designs, engraving, and sampling. as per last account, £5,776,212 19s. 8d. Further capital expenditure at cost (less sales) for the two years ended 26th June, 1920, £14, 922 16s. 11d.,

making a total of £5,791,135 16s. 7d. I suggest that that is not an ideal way of disclosing to interested parties what the main resources of the undertaking consist of. Another example of how not to do it I should like to give you: The Balance Sheet of a shipping company having total assets amounting to £1,305,000 odd, explains £1,073,811 of that amount by simply describing it as 'Stock in steamships and investments, book value at 31st December, 1918, after deducting depreciation previously written off.' At the annual meeting of that company the chairman was asked whether he would state how much of that figure represented steamships and how much represented investments, and he said that it was not in the interests of the company to give that information. At that time the £10 shares of the company stood at about £45. A little later the ships were sold, and the company was wound up, and the return to the shareholders is now expected to be about £130 per share. One wonders whether it really was in the interests of the company that shareholders should have no information which would suggest to them that their shares were worth a very great deal more than the current market price.

"I put these matters before you, but I have no time this evening, and I do not think that I have any particular inclination just now, to suggest a remedy. I have merely tried to point out to you that the question of what a Balance Sheet ought to be, and ought to contain, is not a very simple one that can be answered offhand, and yet that it is a very urgent one, in that clearly there are cases where shareholders and other interested parties do not get the information that would be of great use to them from the published accounts, and seem at present to be entirely without a remedy." (Applause.)—The Accountant.

THE INCOME TAX ACT.*

BY BERT R. MASECAR, C.A.

Mr. Chairman and Gentlemen:—

IN undertaking to speak to you on the Income Tax Act I know that I have assumed a very large task and, knowing the magnitude of the subject, I hope you will appreciate my position in endeavoring to present to you a few phases of a large and intricate matter.

As you have all undoubtedly read numerous booklets on the various penalties and provisions of the Act I do not propose to take

*An address given at the 8th Annual Convention of the Retail Merchants of Saskatchewan, June 17th, 1921.

up your time dealing with these items but will rather endeavor to speak on some items which have been met with in my experience. On account of the rulings of the Department not being made public every person is necessarily bound to be guided by his own experiences and rulings which he obtains in regard to his own returns and by sound business common sense.

The Income Tax Act is a comparatively new enactment and as it is an Act which has to be experimented with for quite a length of time before real hard-and-fast working rules can be laid down to cover all cases it is but natural that a good many complaints are laid against the Income Tax Department. Some of the complaints are undoubtedly just and right and it is my opinion that if more of the business men would undertake to stand behind their complaints and take them up with Ottawa they would obtain relief. I do not hold any brief for the Income Tax Department, but I will say that I have found that where a man or a Company has good grounds for objecting or appealing against the assessment made on them and has taken the matter up with Ottawa they have been accorded fair treatment. The officials in the local Income Tax offices have certain rules laid down by Ottawa for their guidance and it is not in their power to alter those rules. The power of making special decisions and rulings lies with the Minister of Finance and that power can not be delegated to all the clerks in all the various Income Tax offices throughout the country. In the majority of cases if the taxpayers will give the local income tax offices the information they ask for there will not be very many appeals against the assessments made. The work of the Income Tax offices has undoubtedly been greatly increased by taxpayers endeavoring to avoid the issue and refusing to answer what to them appeared to be useless questions. You must remember, however, that the assessors in these offices do not know all the details of your business as you yourselves do and it is only to be expected that they will have to ask questions in order to be able to understand your financial statements. You know, nearly every business man has a different way of keeping his books and of preparing his financial statements and for this reason it is difficult for the Income Tax assessors to clearly understand every statement sent in to them without getting supplementary information from the taxpayer.

Dividends when received and shown by the taxpayer shareholder are not subject to the normal tax as that tax has already been paid by the Company from which he received the dividend. If a person's income is such that he only pays the 4% rate then the amount of his dividends at 4% is deductible from the tax as computed including the dividends, and if he came within the 8% normal tax rate the rate to be charged on the dividends for deduction pur-

poses would be at 8%. Two examples will illustrate this matter, and I am taking the case of a married man without any dependents:—

Salary or profits from business	\$2,000.00	
Dividends	400.00	
Total Income	\$2,400.00	
Statutory exemption	2,000.00	
Taxable income	\$ 400.00	
Normal tax, \$400.00 @ 4%		\$16.00
Deduct dividends of \$400.00 at normal tax rate of 4%		\$16.00
Tax to be paid		Nil.
Salary or net profit	\$6,800.00	
Dividends received	4,000.00	
	\$10,800.00	
Statutory exemption	2,000.00	
Taxable income	\$8,800.00	
Normal tax, \$4,000.00 @ 4%		\$160.00
Normal tax, \$4,800.00 @ 8%		384.00
Total normal tax before deductions		\$544.00
Deduction for dividends \$4,000.00 @ 8%		320.00
Net Normal tax payable		\$224.00
Surtax at 1%, 2%, 3% and 4% rates ..		142.00
5% on above two amounts		18.30
Total tax payable		\$384.30

Money received under wills or the proceeds of life insurance policies are not income for taxation purposes, but any profits made from the use of such monies, except as noted herein in respect to investments and speculations, are taxable income.

It must be remembered that the Income Tax Department does not have to rely solely on the taxpayer for information in regard to his return but may call on anyone with whom he had business dealings to produce their books and records to show the business conducted with the taxpayer.

Persons in Canada who are acting as agents of persons residing outside of Canada are required to make a return of income which passes through their hands on behalf of the non-resident.

If you have income coming in from other Countries you are entitled to deduct from your tax the amount of income tax paid to

the other Country up to the amount of tax payable on that particular income in Canada. This deduction is only allowed where the other Country reciprocates by allowing similar deductions on Canadian income of residents in that Country.

Failure to keep books or to make the necessary returns does not exempt a person from paying Income Tax as the Finance Minister has the authority to say what your income is and in such a case the burden of proving that your income was not that much rests on you.

Profits made from speculation outside the regular business of the taxpayer are not taxable income. If a merchant draws money from his business and buys real estate for \$3,000.00 and sells it for \$4,000.00 the \$1,000.00 profit is not taxable as it was realised outside his regular business and is considered an increase of capital rather than income. Had the \$3,000.00 been invested in real estate with a house which was rented the rentals received after deducting taxes, insurance, repairs and depreciation, would have to be shown as income for taxation purposes until such time as the property was sold. Had this property been bought and sold by a man in the real estate business the \$1,000.00 profit on the sale of the property would have been taxable income as that was his business. Where profits are made in a transaction the payments on which extend over a number of years it is permissible to show only the earned profits each year in proportion to the amounts paid on the agreement, but it is necessary to keep good records in such cases so as to be able to ascertain the unearned profits each year. If a man in the real estate business bought a piece of land for \$4,000.00 and sold it for \$8,000.00, \$2,000.00 cash and \$2,000.00 per year for three years, the total profit would be \$4,000.00 which is 50% of the sale price of \$8,000.00, so that 50% of each payment received would be profit and \$1,000.00 profit only would need to be shown each year. Investments and speculations are treated by the Income Tax department as capital assets and when these capital assets are sold the increase in value is considered to be an increase of capital, not revenue. But while the Capital assets are in the hands of the taxpayer any dividends, rents or other revenue received are considered as revenue or profit.

A married woman with an income of her own is entitled to an exemption of \$2,000.00 and above that figure she must pay the same taxes as any one else. In the case of children, where a wife has a separate income, either the husband or the wife may claim the \$200.00 exemption for each child, but not both of them.

The Income Tax Act does not alter the fundamental principles underlying the taking of inventories at the close of fiscal years. Stock should be taken at cost price, plus freight and cartage, or present values whichever is the lower. Increase in values of goods on hand should not be considered when taking stock as that is anticipating a profit. Stock taken on the basis of cost or present

value, if present value is lower than cost, will be accepted by the Income Tax officials.

In Great Britain a three year average is taken in computing the tax payable, but up to the present time that does not apply in Canada. It would not be surprising if our Act was amended at some later date to cover this point as it would seem to be an equitable manner of levying the tax, particularly in regard to some businesses.

The Income Tax Acts have been in force in England and the United States for a much greater length of time than in Canada and consequently they have their organization working to better advantage than we have. The Chartered Accountants Association have been trying to obtain a complete list of rulings from the Income Tax department in order that they might be in a position to publish the information for their members who would then be able to advise their clients as to the proper method of making up their accounts, writing off depreciation, creating reserves for bad debts, etc., etc., but up to the present time they have met with no success. The latest information is that the Department has advised that the rulings and Act are to be consolidated after the close of the session of the House which ended a couple of weeks ago and that the rulings would then be available to the public. All we can do is be patient and where cases come up which are obviously unfair and unbusinesslike take the details to Headquarters at Ottawa and endeavor to obtain satisfaction there. The clerks in the Income Tax offices have not had a great deal of training in that line of work in the majority of cases and the easier the taxpayer makes their work in connection with his return the easier will be his lot in dealing with the same officials.

Any attempt to manipulate the books so that no profit will be shown will undoubtedly end in disaster, because if no profit is shown for Income Tax purposes how are you going to declare dividends or draw profits from the business. Aside from this, such a practice is dangerous as you do not know when some member of the Income Tax staff will step in and check your books. If you have a bookkeeper such a method is not feasible for the reason that the bookkeeper may leave your employ and there is nothing to prevent him talking about the way you manipulated your accounts, and when one person starts a story like that going it is hard to say where it will end. Outside of all the reasons for not making false statements on the grounds of the danger of a "come-back" it is hardly honorable for a man to shirk his share of the Country's burden and let the rest of the community pay his taxes. I have always believed in the principle of every man with an income keeping proper and true books, making proper returns and paying his taxes and so never having a fear that some day he might be checked up and caught doing what he should not have done.

The biggest handicap in the Act as at present, to my mind, is the one which makes it necessary for the taxpayer to compute his own tax

before sending the forms in. This handicap would not be so great if the taxpayer had only one rate to figure on instead of so many different rates if his income is over \$5,000.00 or \$6,000.00 per year. It has appeared to me that it would be an easy matter to compute the amount receivable under each rate of income and then work that amount back to a percentage of the income, thus giving a fixed rate for each different amount of income. Thus it could be set out that on all incomes between \$2,000.00 and \$5,000.00 the rate shall be 4%, on all incomes between \$5,000.00 and \$6,000.00 the rate shall be 5%, on all incomes between \$6,000.00 and \$8,000.00 the rate shall be 5½ %, on all incomes between \$8,000.00 and \$10,000.00 the rate shall be 6½ %, and so on up the scale with an increasing single rate for each variation of income, instead of having the taxpayers endeavor to compute the tax on the basis as at present. It seems to me that an organization such as yours could well take this matter in hand as you have a strength behind you which an individual has not.

It might not be out of place in a talk of this kind to throw out a warning in regard to the employment of people who claim to be Income Tax experts and who claim they can save you a lot of money by reducing the amount you will have to pay for Income Tax. Of course there are certain legitimate deductions which we are entitled to deduct from the profits, but outside of these if a man tries to get ahead of the Income Tax Department he is going to get caught sooner or later. I might cite one instance which I know of and which explains this matter more or less emphatically. A retail merchant engaged a man who claimed he could get around the Act so this merchant would have to pay very little income tax and that on account of his connection with the Income Tax office the accounts would be passed as presented by him. Shortly after these accounts had been made up the man's connection with the Income Tax office was broken and when the return was checked up by disinterested clerks in the Income Tax office the merchant was asked to explain a lot of items which were not in order and as a result his statements did not go through as they had been made up by the expert. It appears to me that these people who claim they can save the taxpayer a lot of money on his income tax are out after "easy money," that they will only last for a short while and will then take up other work which promises quick returns for the time spent. In the long run a man will always be better off by having his books and accounts handled by reputable persons, who do not claim to do wonders, and by having his returns made out properly and in accordance with the facts. Please do not misunderstand me in this, as I have no intention of conveying the impression that a man should not fight for every legitimate deduction he has made in his returns, but on the contrary I believe when a man conscientiously makes up his books and returns on the basis of what he considers good business he should be prepared to contest any effort on the part of the Income Tax officials to disallow that deduction and it is for him to stay with his case until he is convinced he is in the wrong. There is the case of one

of your members which illustrates this point. This man commenced business in January, 1918 and for the first year closed his books at January 31st, 1919 and sent in a return. The second year was closed at Decembtr 31st, 1919 and a return was sent in. I understand the Income Tax Department have combined these two statements and called them all one year, although they include 23 months business. Of course, the Income Tax Department are undoubtedly contending that the year ends were all in the same calendar year. It would appear to me that this man has a legitimate reason for appealing as, even if they will not allow the return for the eleven months ended December 31st, 1919 to stand as one year, the man should have an opportunity of revising his books and statements so as to make his year end come on either December 31st or January 31st in each year and amend his income tax returns accordingly. But as this case is very exceptional it is for this man, or his representatives, to contest the point as far as it is possible and endeavor to secure a just ruling in regard to the matter. And I believe if all the facts in the case are put before the chief officials in Ottawa that the man will be fairly dealt with.

Me must not forget that this Act is a law of our Country and as such must be lived up to. Revenue must be provided for the Country to carry on with and to pay the debts incurred during the Great War and while we may criticise the Government for the manner in which this thing and that thing is done yet our only remedy, if we have such criticisms to make, is to elect the proper men to conduct the affairs of the Country and men who will see that money is not wasted. The Act is there and we might as well make up our minds to pay our proportion of the taxes due under that Act. Men have in the past boasted that they were not paying any Income Tax but in the end those men will be checked up and will certainly have to pay more than they would have had they sent in the proper returns at the right time. The initiative of obtaining the forms and sending them in rests with the taxpayer not with the Government to send out the forms. Every person who is subject to the tax, meaning any one who has an income of over \$1,000.00 if unmarried and over \$2,000.00 if married, must make a return whether they receive a form through the mail or not. The penalties provided for in the Act for not complying with the conditions of the Act are very severe and it behooves every person with an income to make themselves thoroughly acquainted with the requirements of the Act so they will not make themselves liable to the penalties through ignorance.

VERIFICATION OF INVENTORIES. *

By A. L. Philbrick.

THE specialized feature of accounting known as auditing has developed in recent years to an extent far beyond the expectations of accountants of twenty or thirty years ago. At the present time auditors are depended upon by all classes of business men who desire the opinion of a disinterested third person in regard to the history or standing of a business or company. This history tells by what means a business enterprise has arrived at its present condition and proves or disproves the statements of the officers as to the assets the company or firm possesses and the liabilities which it has assumed. Men who desire to purchase a business already established no longer depend upon their own judgment as to the condition of the firm which they are about to purchase even though they may be men of years of experience in that branch of trade or manufacture in which they desire to engage. They realize the impossibility of depending upon the accuracy of their own judgment and their own specialized knowledge of the conduct of details of the business. When they wish to know the values that at present constitute the property which they wish to buy, they look to the auditor to investigate for them and report to them on every feature of the business and particularly upon the volume of its present assets and the extent of its present liabilities.

The banker to whom the business man applies for a loan of funds with which to conduct his business is now avoiding the long-established banking custom of depending solely upon the character of the man who applies for the loan. There have been so many unfortunate results from this old banking practice that the banker now asks the auditor to investigate for him in regard to the assets and liabilities involved in applications for loans.

An executive committee of a corporation, which is so large that no group of men can visualize its entire activities and give proper weight to details, realizes the hopelessness of attempting to inaugurate a new policy in regard to the affairs of the company, whether that policy be one of expansion or retrenchment, without at first ascertaining from this disinterested third person, an auditor, the exact situation. The auditor is called upon to supply this information and upon the facts which he reports the future conduct of the business is determined.

These are but a few of the many different purposes for which an auditor is engaged. Many thousands of dollars are invested or are withdrawn from investments as a result of his findings.

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Hundreds of skilled and unskilled workers are given employment or discharged from employment on the basis of his opinions. Bankers lend or refuse to lend ; stockholders invest or refuse to invest ; bond holders and prospective bond holders are led to purchase bonds or are led not to purchase them as a result of the published facts which he ascertains. In general, his responsibilities involve the fortunes of thousands of people, and the extent of his responsibilities is usually appreciated by him to the full degree.

In the course of scores of years of the practice of accounting in Scotland, England and the United States, the accountant has established the custom of communicating opinions reached as a result of audits by means of one of three or a combination of three different written instruments. The occasion often arises whereby the accountant is called upon to supply a list of the assets or liabilities of a company or firm as at a certain date. Again, the accountant is called upon to supply a statement of the profits that have been made during a certain period or a certain number of periods. Almost always one of the three above-described statements is prepared by the auditor, and usually all of them. The first is called a balance-sheet, the second a profit and loss account, or statement of profit and loss, and the third is usually called the report.

Many times a business man does not understand the significance of the facts that are presented on the balance-sheet or profit and loss account. Through lack of practice he often is unable to compare one item with another and by means of this comparison arrive at a correct estimate of the present condition of the company or of the prospects for its future success. Auditors have attempted to aid him to understand these figures by writing a report which generally describes the method that the auditors used in preparing the two main statements mentioned above. In addition the auditor usually makes certain comments which illuminate to a very great extent certain portions of these two statements that have previously remained in shadow as a result of a business man's inexperience in the interpretation of similar statements. The figures as given are the work of the auditor or accountant himself. He is responsible for their accuracy, and he is obliged to present them in such a way that his client or those who may see them cannot possibly misunderstand them. It is not enough that his statement can be understood. It must be so clear and plain that it cannot possibly be misunderstood.

This, briefly stated, is the work that the auditor is called upon to do and these are the responsibilities that he assumes. But there always is involved in his work such an equation of human judgment that the question often arises as to how far his responsibility goes, considering that he is human and that he is dealing with human beings. He is not inclined to enlarge upon the limits of his responsibilities in this respect, and he is not inclined to advance the legal excuse, on which he may technically rely, of having used due

care and diligence. The extent of his responsibilities is measured by the standards which he sets for his own work, and in recent years the weight of professional opinion has resulted in his assumption of far greater and far heavier responsibilities than the auditor of two decades ago considered within the bounds of reason.

The three main statements, then, the balance-sheet, profit and loss account and the comments, reflecting as they do the static condition of the business on a certain day and the progress of the business over a certain length of time, contain everything for which he is responsible. If there is a weakness in fact in any one of these statements his work is discredited.

Strangely enough, there is one common item that appears in each of these two statements, and this common feature offers more chances for error than almost any other item that appears. This item is the key-stone of the entire structure of his work. If it is not accurate—if it is not sound in every respect—the auditor is lost. No amount of painstaking work or exacting care taken with other parts of his reports can counteract the effect of error here. To add to his difficulties, this one item offers lures such as are not to be found anywhere else.

This one item is the figure which shows the value of the raw materials and completed stock on hand and is commonly called the inventory.

Before going into the difficulties involving the verification of the inventory, it may be well to explain just why this figure is of such vital consequence. As stated before, it appears in two places, on the balance-sheet and in the profit and loss account. In the balance-sheet it appears among the current assets, one of the two most important parts of the balance-sheet. The excess of current assets over current liabilities is generally called the working capital of the company. The working capital is the first line of defence of a commercial enterprise. A strong position reflected by the working capital indicates the present power of the company. The ability of the company to withstand extended periods of depression depends at first upon its resources in the shape of working capital, and secondly upon its resources in the form of fixed capital. The inventory usually forms a large part of all the current assets. If the inventory be overstated the current assets are overstated, the working capital is overstated and the company is made to appear in a much better financial condition than that in which it really is. A scheme of expansion based upon this overstated working capital may plunge the company into a receivership or it may encourage a laxness in enterprise which may have a disastrous effect.

This inventory figure that is used in the balance-sheet among the current assets must also be used in the profit and loss account to determine the extent of the profits. If the inventory be over-

stated, the profits are overstated, indicating that the return the company has made on its invested capital for the year is unduly large. As a result the expectations of stockholders, bankers and, in general, the investing public are raised to a point higher than conditions warrant. If the inventory be understated, the current assets are understated and the profits are also understated; and plans for expansion which might well be undertaken are abandoned, and capital which might be rendering a good return is unnecessarily frightened away.

An error in the inventory at the beginning of the year is reflected in the statement at the end of that year, for the same figure is used in the profit and loss account at the end of the year as was used at the beginning. The vitally important position, therefore, that the inventory occupies in the statement prepared by an auditor can readily be understood. If the auditor could be absolutely sure that the figure he has obtained is correct, he would avoid one of the most interesting problems in practice and in ethics that is presented to the members of any profession.

An understanding of the auditor's difficulties in respect to the inventory may be shown by describing some of the conditions under which this work is done.

In the first place the inventory is usually presented by the company itself, which is vitally interested in a clean bill of health from the auditor. The company officers or employees count the goods, weigh them or measure them, company officers or employees put the prices on these goods, raw materials and finished product, and company officers and employees usually perform the clerical work of placing the values in the money column, by multiplying the quantity by the price. After their work is done the auditor is called upon to verify it, and generally his work consists of proving:

(a) That the goods listed were on hand at the date when the inventory was taken;

(b) That the goods and material listed were in marketable condition at the date of the inventory;

(c) That the materials were all raw materials, work in process, or completed goods such as a company would naturally have on hand, and that there is nothing listed that cannot be so described;

(d) That the goods listed were not pledged as security for loans still outstanding;

(e) That all the goods that were in the company's possession were the property of the company—that is, they were not goods held on consignment from outside firms;

(f) That liabilities have been set up for all the goods that have not been paid for;

(g) That the prices used were the current market prices at that date or were actual cost prices, providing the cost prices were lower than the market prices at the date of auditing.

(h) That all the extensions, footings and summaries and all other features of the clerical work are correct.

The above catalogue of things that must be proven by the auditor in respect to an inventory comprises only those that have to be proven in regard to each inventory that the auditor examines. There are other difficulties that present themselves in special cases, so that the task that the auditor has of the presentation of a correct inventory figure, whatever may be the unusual conditions surrounding his work, or involved in the preparation of the inventory itself, is never easy. If the auditor has become involved in an error in the inventory, he can present any number of extenuating circumstances that would hold in the courts of law, but evidence which might readily be allowed by law in regard to a great many features of business life cannot be conscientiously presented by any professional man whose standards are ideals and not statutes.

With this standard in mind I should like to discuss now the responsibility that the auditor assumes in regard to inventories as they relate to the items that have been presented above.

In the first place, the condition must be accepted that inventories are prepared by those who are most vitally interested in presentation of a high financial standing of the company. The auditor very seldom encounters a deliberate falsification of an inventory, but he does often encounter that optimistic state of mind on the part of company officers which results in the presentation of such financial results as the company officers desire should exist. Their personal interests are so heavily involved that, no matter how judicial they may attempt to be, there is usually presented the most favorable value of the company's goods and material on hand. On the other hand, there are occasions when the personal interests of those who have the preparation of the inventory in charge are best served by an undervaluation of the inventory, which is as grave a departure from the truth as an overvaluation. This, in itself, puts the auditor on his guard, and he goes over all items realizing that each one may be more favorably presented than if an impartial person or number of persons had been responsible for the figures.

The fact that the goods were on hand at the date when the inventory was taken must be proven by the auditor, and when we say "on hand," we mean in the possession of the company at such a place and under such conditions that they are under absolute control of the company. These goods may be in the warehouse of the company, or they may be in the warehouse of another company from which they were purchased or they may be in the hands of a common carrier. If it can be proven that they were in the warehouse of the company at the date of inventory, there is a strong presumption in favor of the belief that they were actually the property of the company at that date. But the auditor is not justified

in assuming without question that they were the property of the company. He must have an additional proof of their own ownership. They may have been moved in one day and moved out another; and by tracing invoices of purchase, way bills, express receipts, dray tickets and other documents that currently pass in the regular course of business, the fact of their ownership may be more clearly established. This question of ownership is the question of prime importance which must be settled before any other verification, such as prices and condition of goods, can be of value. Not until the auditor has exhausted every measure to make this proof absolute to his own satisfaction (and his standards in this respect must be of the very highest) can he conscientiously assume that the goods were the property of the company whose books he is auditing.

He must also satisfy himself that the raw materials are in such a condition that they can be converted into finished product which the company can sell, and the finished product that is on hand must also be in marketable condition. This question involves the use of rare judgment on the part of the auditor and involves a knowledge of the market in which these goods are to be sold. In our country, where the manufacture and sale of luxuries constitute such a large proportion of the business done, there is a chance of serious error in this respect.

For example, styles affect values in a very large number of commodities which are sold. This fact is no better illustrated than in articles of women's wear, where the styles constitute anywhere from 70% to 90% of the values of the goods. Forms for women's hats may be worth \$2.00 apiece when the style is up-to-date, and a few months later be sold for 10c. apiece because the style has changed. The quality of the material has not changed, the form on which it was manufactured has not changed, but the demand for that form has changed completely. The same condition exists in the case of women's shoes, the cloth and texture of cloth for men's and women's clothing. And when jewelry is considered there is sometimes nothing left but the intrinsic value of the gold or silver which is used in the manufacture.

Conditions in the old methods of manufacture of almost everything will result in complete changes on account of an invention of a new machine, a newly discovered use for an acid or a new method for firing a boiler. If the goods are not in marketable condition, the prices should be reduced to the lowest possible figure; and often these prices have to be reduced to the value of the raw materials that are in the manufactured product simply because the manufactured product is no longer salable. The reason for this reduction in inventory price is seldom seen by manufacturers. Their argument usually is to the effect that the goods cost them a certain price to

make and, therefore, that price should be the inventory price because it is the cost price and that the goods are worth as much now to them as when they were made although they realize that they could not obtain that price in the open market.

Oftentimes there is included in the inventory raw material or work in process or completed goods which the company does not have on hand in the regular course of business. All these articles should be excluded and placed in another classification amongst the current assets. The inclusion of deferred charges to profit and loss in inventories is very common, as is also the inclusion of bonds or mortgages held, as well as personal loans, which may not have even a note receivable to indicate their existence. If these assets are allowed to remain in the inventory, even though they may be worth all the value that is given to them, the inventory at the end of the year may not include them because during the course of the year they may have been sold. Such sales are seldom recorded as part of the balance of the company and, of course, they should not be recorded, but when they are included in one inventory and left out of another, the inventory as presented is not correctly stated. Expenses for the defense of patent suits and the costs of experimentation in new processes, no matter what the condition may be under which they are listed by the company itself, should never be allowed to appear in the inventory that the auditor places before the company's stockholders and the investing public. In the balance-sheet which he finally approves, the auditor's responsibilities in this respect are, in my opinion, almost without limit.

The auditor should also be sure that none of the goods listed on the inventory has been pledged as a security for a mortgage. This fact can be established sometimes by an investigation of all the cash receipts. But there is one feature of an inventory of which there is no absolute proof. A dishonest merchant or manufacturer can pledge all his inventory or all that the banks are willing to accept in the form of pledges and there may be nothing to indicate such a pledge on the books. The cash that has been received as a result of pledging these goods may be credited to the personal account of the proprietor himself, and he may state that it represents advances out of his own personal funds. He may not even enter the cash so received on the books of the company but use this cash in the payment of bills which have never been entered as liabilities and all records of which he has been very careful to destroy.

The accountant may take certain measures to discover liabilities in the form of pledges of raw material or completed products, such as correspondence with the known creditors of the company or with those bankers with whom the merchant or manufacturer may have had dealings during the course of the year. But all the precautions of this nature that he may take may not disclose the fact that

the goods are not free from any lien or mortgage. He may use other methods that suggest themselves as a result of conditions that he finds surrounding the business of the company disclosed in other features of the audit. But he never can be absolutely sure that the goods are free and clear of financial incumbrances. He should always obtain a certificate from a responsible officer or the owner of the business to the effect that the goods are not pledged as a security for a loan, but if the merchant is inclined to falsify his inventory he would almost as freely sign a false certificate. There is little satisfaction for the auditor in having documentary proof that his client is corrupt and untrustworthy if those who depend upon his balance-sheet for a financial statement suffer a financial loss. One of the purposes for which the auditor is engaged is to prove the value to the business of the assets that it has, and when the crash comes the auditor is not in a good position if he attempts to defend himself by stating that his client lied to him.

That is the ethical side of the situation, and the creditors of the company are likely to believe that the auditor lacks ability if he permits himself to be deceived in this manner. However, if the creditor attempts to collect from the auditor the amount lost as a result of trusting in the balance-sheet, the auditor has the legal defense of showing that he used due care and diligence ; but, as was stated before, that is the very last defense which an auditor wishes to present

An error which may occur as often as any other is that of considering goods that are on hand but are held on consignment as the property of the company. Legally these goods are not the property of the company, although there is no way of distinguishing by their appearance that they are anything but live current assets. The auditor may encounter in the income of the company commissions that have been earned on goods sold, and such commissions are an indication of business being conducted on the consignment basis. The auditor is then put on his guard and should see invoices for as much of the goods on hand as can be possibly traced. The tracing of certain goods that are on the inventory by means of invoices is always difficult and many times impossible.

Again the auditor may have to rely upon the certificate of the proprietor of the business, or he may be able to see that the total quantity of goods on hand is very large as compared with the volume of sales. There is no limit to the volume of goods that a consignee is willing to carry, because he does not have to pay interest on the money invested in them, so that his inventory may be relatively inflated with that class of goods and no indication be given that they are not his own property. The establishment of any principle or the promulgation of any formal rule in connection with the verification of the ownership of goods is almost impossible after

the audit has been presented. The character of the tests applied by the auditor to meet the circumstances that he encounters measures his skill and ability. He is not really excusable, in any circumstances, from the charge of lack of ability for failure to detect such falsifications due to consigned goods, but the employment of an adequate number of reasonable precautions is always a good defense against the charge of negligence and carelessness.

Whatever may be the difficulties that have been discussed in the previous paragraph, all of them put together do not offer so many embarrassments to the auditor as those which occur when he attempts to establish correct prices that must be given to all the goods that are listed. Here he is confronted by past performances, present conditions and future prospects, all of which may be used against him in such a plausible manner by the merchant or manufacturer who fixed the prices that he may be deceived into a misstatement of current assets and profits while attempting to be strictly impartial.

"Shall current prices for the goods for the raw materials prevail?"

"Certainly not," declares the manufacturer, "for the current prices are below what the cost prices of the goods are to me."

"Shall the cost price be used?"

"Certainly not," declares another manufacturer, "for at the present time I could sell the goods at a higher price than they cost me."

"Are these the cost prices on your manufactured goods?"

"They certainly are," replies the manufacturer. They are all priced at the selling price and I have cut them down by 15%, which is the estimated profit that I make."

"On what do you base these estimates?" asks the auditor.

"They are the estimates that I have used for years," replies the manufacturer. "If I am not permitted to use these estimates, what cost figures can you present to me? I make fifty different articles in my factory. The raw material is charged to merchandise account, the sales are credited to merchandise account, all the labor that I use is charged to merchandise and every other expense that I have is charged to merchandise ultimately, whatever may be the expense accounts that I keep during the course of the year."

The custom of the trade is one of the most common arguments used in favor of certain methods of price determination of manufactured goods; and it is a fact that manufacturers of many classes of goods follow the same method in determining prices for their inventories.

The auditor here also encounters one of the greatest difficulties in practice. He knows that the price that should be used for the valuation of manufactured materials is the cost to manufacture, but

he also knows that his client will not pay him to construct a system of cost accounts for the entire year from the original invoices, payrolls, expense bills and other charges that go to make up costs. He usually can arrive at a rough and ready determination of the costs by ascertaining the percentages of profits of previous years to the sales, providing the inventory is valued on a sales basis. This sales price basis is one of the common methods used by manufacturers who do not know their costs. They always know what their selling prices are, and after excluding all items of income excepting the sales of material, the accountant may deduct the percentage that he has arrived at as a result of his investigations. The established rule of most auditors is to use the market price or the cost price whichever is the lower, and any departure from this rule should be carefully explained in the report or included in the certificate that is attached to the balance-sheet. Investors are more inquisitive about the prices used in the inventory than any other feature of the accountant's work, and the accountant can offer no better protection for himself than a complete and detailed description of the method that he used in arriving at the prices in the inventory.

The most obvious verification that the auditor must make is that of the accuracy of the clerical work, which means the extensions, the footings and the summaries of the totals. He is seldom expected to verify each extension on the inventory, but he would be grossly at fault if he allowed any material error to pass unnoticed.

To summarize the position that the auditor is in, the statement can be made that he is held responsible for the accuracy of all the figures in an inventory without being expected to perform the work which would be necessary in order to enable him to swear before a court that every figure is absolutely correct. This seemingly unreasonable responsibility he is asked to assume because of the skill and ability which his presence in the accounting profession implies. It is presumed that he is able to read the signs that hang on errors, and in this manner to discover them. He would probably secure few engagements if he insisted on being paid for going over every figure in the inventory. Morally he is responsible for the accuracy of all figures. Legally, however, he is not held responsible if the figures prove to be wrong, providing he has used due care and diligence, such as would ordinarily be used in the regular course of business or such care and diligence as the customs of the profession require.

(The Journal of Accountancy.)

THE WORLD'S BALANCE SHEET.

**War Has Made an Appalling Mess of Old World's Balance Sheet—
Vast Sums Owed to Britain and United States,
Now Chief "Creditor Countries."**

The recent visit to London of M. Doumer, the French Finance Minister, to discuss with Sir Robert Horne the allocation of the first \$200,000,000 paid by Germany in reparations, has in dramatic fashion directed attention to one of the gravest after-effects of the war.

Half the world is groaning under a colossal burden of debt, which is mounting in interest by millions a week. The world's indebtedness to America is \$8,000,000,000 of which Great Britain owes \$3,888,000,000 and France \$2,200,000,000. At the same time the world owes Great Britain \$7,790,400,000.

Practically no effort is being made to pay off these debts, for the position at present amounts almost to the operation of a universal moratorium, according to the London Daily News.

Whole World Groans.

Every nation which took any part in the great war is groaning under burdens of debt exceeding the wildest dreams of anyone in pre-war days. Thousands and thousand of millions of pounds were borrowed by the various nations from their own people, but the immense sums raised in this way did not prove to be sufficient. So each nation went outside its own borders and created external debts.

They came to England, and, while we had it, money was freely lent. When our own resources were nearing exhaustion, we went to America and borrowed further sums to lend to our allies. They also went to America themselves. The net result of this wholesale borrowing is that to-day America is the principal creditor of the world, while Great Britain comes next.

The World's Debts.

The position is a complicated one. It may be seen at a glance in the following figures :

The world owes America \$8,000,000,000, as follows :

Britain	\$3,888,000,000
France	2,200,000,000
Italy	1,600,000,000
Belgium	280,000,000
Russia	148,000,000
Rest of world	184,000,000

The world owes Great Britain \$7,790,400,000, as follows :

Russia	\$2,245,600,000
France	2,228,000,000
Italy	1,907,200,000
Belgium	413,600,000
Serbia	88,400,000
Other nations	331,600,000
Dominions	576,000,000

Nothing Paid For Three Years.

These are the main features of the world's outside debts, but they are still further complicated by smaller debts between the various nations who are debtors to Great Britain and the United States.

What is going to happen to all these debts ? To-day there is a position almost amounting to a general moratorium. Except for certain short-term debts which have been maturing in the past twelve months, nothing has been done for three years, either in the way of paying off debt or paying interest.

Millions and millions of fresh debt are being piled up in the shape of unpaid interest. The problem is a gigantic one. Combined with the vast internal debts this war incubus of debt is almost overwhelming. Taking the four principal nations, their total debts spread over their entire population may be averaged as follows.

France, per hand	\$816
England, per head	640
Italy, per head	320
America per head	232

The problem of the external debts is immensely complicated by the chaotic conditions of the exchanges. Thus, suppose we determined to pay off the \$3,888,000,000 we owe America, it would cost us, owing to the depreciation of the pound sterling in America, over \$5,200,000,000.

We had one experience of this last autumn when- we repaid the special- loan of- \$200,000,000.- The exchange added no less than \$36,000,000 to the sum we had to pay. The position is still worse for those nations whose money is far more depreciated than ours.

France, were she willing to pay off her external debt, would find that more than twice the amount she thinks she owes would have to be paid. Italy would have to pay three times, while others would be more still. This debt and exchanges are inextricably bound up together.

ROGER BABSON DEALS WITH BUSINESS OUTLOOK

Speaking before the Kiwanis International Convention Mr. Babson outlines the real needs of the Industrial World today.

“BUSINESS ! What is business ? The greatest thing in business is not machinery, nor materials, nor markets. No. The greatest thing in business is men ! And the greatest thing in man is not body or muscle or mind, but rather soul. Prices, wages, markets, can all be adjusted, but the soul of man, which determines his motives, his purposes, his ambitions, his energy, can only be converted.

Prosperity is the reaction from industry, thrift and service. And those things are spiritual qualities, not material. We have a granite quarry. That quarry has always existed. It takes the sculptor with the vision to turn that granite into a beautiful cathedral,

What's the Matter With Business ?

Statistics show the difficulty with business today to be that we have been trying to run industry by the will of Congress, judges, bankers, labor unions, and Boards of Directors, rather than by the Will of God. We have been trying to make cork sink, stone float, water run up hill, and prices remain fixed when these things could not come about. Business men believe in the law of supply and demand, but all want the law suspended, so far as it applies to their particular business. The farmer is howling for lower priced labor, but wants a high minimum price for his wheat and corn. The railroads are working for lower prices for rails, and yet want to keep the price of transportation fixed; while the labor leaders are clamoring for a reduction of the cost of living, and at the same time fighting all wage reductions.

As a result business is like the donkey between the hay stack and the bag of oats. The donkey was so undecided as to which to eat that he stood midway between the two and starved to death. Take the railroads, for instance ; perhaps they would be better off with lower rates ; perhaps they would be better off with higher rates. Surely, however, the railroads should not continue to play the part of the donkey while more than six hundred thousand freight cars are idle. They should either raise rates or lower rates, or do something to see if prosperity would not return.

Freight Car Situation serves as Business Barometer.

One of the best barometers of prosperity is the freight car “surplus” or “shortage” figures. A quick way to get prosperity back is to get idle cars moving freight.

The railroads are trying to start their 600,000 idle freight cars with rates where they were at the peak of prosperity. The wage worker is trying to get back his job at the price that existed two years ago and a year ago, while the manufacturer and retailer are doing the same. The purchaser of raw materials is the one man who has come down to earth. And let me say to those of you who are interested in cotton and hides and wool, and those other products which have suffered so much during the past year ; that you will be the first to come back, and the first to again enjoy prosperity.

My guess is that we will see no marked improvement in business this year, but we will see a distinct improvement in business next year.

This year is going to be a quiet year. Your advertising friends and your optimist clubs will tell you that we are going to have a lot of prosperity next month, but we are not. We get sick quickly. It takes weeks to convalesce. But how long will we be convalescent ? Well, I was sick once and I asked that question of my doctor, and he said : "Until you learn to live, Babson, as God intended you should."

Business is Like an Automobile.

Business, like an automobile, has been running on high gear for the past three years, and all of a sudden the automobile has been stopped by the gasoline giving out. During the past few months we have been cleaning out the tank and refilling with gasoline, and now are about ready to start the automobile. When the car stopped we were in high gear, and we have not yet changed the gears. But, in starting the car again, is it advisable to attempt to start on high gear, or is it better to put the car first into low gear ? Surely the sensible way is to start on low, move to second, and then into high. Any automobile driver knows that this last is the thing to do. Attempting to start on high will inevitably stall the engine.

Yet we are trying to start business on "high," just where it stopped. The railroads want to get business back at the old high rates : or lose much of their business ; labor prefers to be idle for months rather than have wages cut ; while retailers are holding up prices "until business revives." The result is that much business is at a standstill. Unless something is radically done it will be two or three years before we again have prosperity. With railroad rates up, wages and everything else up, it is impossible to start the automobile of prosperity on high gear without stalling the engine. If, however, the railroads would reduce rates, wage workers reduce wages and retailers reduce prices, until these six hundred thousand freight cars got filled and moving, then we could get started. Then the railroads could gradually put back their rates, the wage workers put back their wages, and so on along the line, moving gradually from low gear into second and from second to high. Then the train of prosper-

ity would soon again be going at full speed, without danger of stalling the engine.

"If" Labor is Wealth.

If labor is the basis of all wealth, the country surely ought to be very rich at this time! Not for many a year has there been as much surplus labor available. From three to four million persons are now idle because they are determined to start the automobile of prosperity on high speed, without first going into low and second. It never could be done, and it never can be done. We are only wasting time arguing about it and trying it out. Labor is not the basis of wealth, nor are our natural resources the basis of wealth. There is more available labor and more of natural resources in China than in the United States. But why then is China away behind the United States? The reason is that China lacks those intangible qualities of faith, courage, initiative and inspiration which built up American business.

The truth is that we have tried to have legislation, banking, labor unions, and other material forces take the place of the spiritual forces which have really developed America. This is why new railroads are not being built today; this is why there is a shortage of houses today; and this is why there is much unemployment today. The teaching of the old economic professors, that everything came from labor and natural resources is wrong.

Three Factors in Prosperity.

The truth is that prosperity and civilization come from three factors:

- (1) Natural resources.
- (2) Labor; and
- (3) That intangible spiritual quality which led the Pilgrims to these shores three hundred years ago, which stretched railroads across the prairies a hundred years ago, and which built factories, steamships and other things during the past decade. Moreover, these intangible qualities can be developed only through the natural means which God devised.

America should not return to the policy which rules the jungle, but it should most seriously consider the policies which have developed successful breeding of men and women up to the present time. Aristocracy was overdone a century or more ago, but it still has its uses. We can breed prosperity as well as we can breed poultry, but we can't do it by attempting to suspend the law of supply and demand, the law of reward and punishment, and other natural laws. At the present time we are developing a race of inefficient and almost industrial imbeciles. Unless a halt is called and we can get back to the old-fashioned principle of selecting the fittest, using it in its broadest, most spiritual sense, we are headed for disaster.

Prosperity the Result of Effort.

I have a friend in one of the Eastern colleges who actually hungers for hard problems. He cannot be tempted by money, and is

never interested in anything which is easy. When, however, I have a truly difficult task he is delighted to work it out for me. He has the spirit which discovered America, developed America, and brought about the prosperity which our country has heretofore enjoyed. I refer to the creative impulse, or that desire for service which is at the basis of prosperity. When fifty-one per cent. of the people are imbued with this spirit of service, we will have good business ; but when fifty-one per cent. of the people are trying to do as little as they can and "get away with it," then high prices, inefficiency and bad business are inevitable.

Prosperity is simply a combination of natural resources, hard work, and those intangible spiritual qualities of faith, courage, and a desire to be of service. These qualities, however, have been developed in the past only through struggle and competition. They have been developed only through the survival of the fittest, using the word "fittest" in its broadest sense, including the physical, intellectual and spiritual qualities. These qualities are not being developed today with legislation, labor unions, and other forces attempting to eliminate struggle, industry, thrift, and the workings of natural law.

A Dollar for a Dollar.

One reason for unemployment and general bad business today is the fact that so few people are giving a dollar's value for the dollar which they receive. Unconsciously we have all become dishonest. The grocer no longer adulterates the sugar, but he and we are adulterating our work. The farmer has ceased putting good apples only at the top of the barrel ; but the same principle of deception has permeated to other lines of labor, industry and commerce. We are all trying to get along by our wits and bluffing rather than hard work. The congressman jollies his constituents ; the department heads in Washington jolly the congressmen ; the government employees jolly the department heads, the business man jollies the government employees, and the constituents in turn jolly the business man. Thus the vicious circle goes around, each trying to live by his wits and fool the other, all forgetting that the prosperity of the country is determined by industry, thrift and integrity. When we all, whether wage workers or employers, manufacturers or merchants, senators or mere human beings, are again imbued with the spirit of service, then we will have prosperity.

More Information Needed.

The business outlook depends primarily today on a recognition of the fundamentals of life. If every man would start out and determine to give every man a dollar's worth in service for a dollar in money, I believe it would have a tremendous effect on the business conditions of the country.

Let me say a word regarding the banking situation. The banking situation statistically is improving. If Europe is kept from bank-

ruptcy, the banking situation will continue to improve. But the banker has got to consider the spiritual forces. The banker has got to think less of Dun's and Bradstreet's rating of men and more of God's ratings of men.

The government departments in Washington are doing a great many things which they should not do ; but they could do one valuable service which they now do not perform. They could give us more information as to the condition of different lines of industry, the amount of goods on hand and in the process of manufacture, and how the money of the nation is being spent. For instance, the Federal Reserve Board publishes the so-called bank clearings of the country, but no subdivision is made as to industries. Hence, when the bank clearings show that business is declining we don't know in what industries the decline has taken place. Suddenly the country is astounded by a surplus or shortage of a certain commodity. With advance information, preparation could be made to avoid the catastrophe, or at least to provide a substitute for the commodity. The sugar episode of last year could have been easily avoided had the government collected and published monthly figures on the sugar available.

Bank Loans Should be Classified.

A great opportunity exists in classification of bank loans. Such a classification would show what percentage of our credit is being used for the production of goods, what percentage is being used for the storage of goods, and what percentage is being used for the marketing of goods. It would also be interesting to see whether more money is being loaned for the manufacture of phonographs, or for the manufacture of kitchen furniture. The government cannot make people good, but it can supply data which, when a sensible man reads, he of himself will determine to be good.

As food, clothing and shelter were once the three essentials of the primitive community, so fuel, transportation and the direction of credit have now become the three essentials of the modern city and nation. The groups that control the fuel, transportation and credit facilities of a city control the people. To these three there might also be added the news function, as the control of the news is also a very important feature in modern life. Still New York could get on without any newspapers. But the people of New York would starve or freeze to death within a short time without fuel, transportation, and the credit necessary to get the commodities from their sources to New York City. These three forces must be absolutely free to act and react in accordance with natural law for the benefit of all groups and without showing partiality to Capital or Labor. As these three great factors of civilization are allowed to function naturally, we have prosperity, but when any one of them is gummed up (by capital in the form of trusts or by the wage-workers in the form of unions) then there is depression and unemployment.

Should be More Long-term Credit.

Let me say a word about this direction of credit. I am not especially interested in the bank statistics that are published now from week to week. It is interesting to know the condition of loans and deposits, but as a rule they both go up and down together. Even the bank reserve itself must be kept within certain limits. The interesting figures would be those showing whether the banks are loaning their money for producing goods or for storing goods; whether the banks are loaning money to the farmer and the manufacturer or to the speculator and the merchant. The need of today is more long-term investments in the form of better railroads, better highways, better homes and more of all these things. Yet the banker—owing to our laws supposing to protect the depositor—prefers commercial paper which is put out in the interests of the speculator and middleman. They refuse long-term paper, which is issued in the interests of those who are truly developing the country along permanent worth-while lines. This is a great mistake.

The Fundamentals of Prosperity are Here.

Fundamentally the country is in good condition, as evidenced by the following ten reasons; and yet we are in a state of unemployment with wholesale prices tumbling with rapidity never before equalled in history. It is, therefore, evident that the real difficulty of our country today is spiritual and psychological rather than fundamental. Let me give these ten reasons why fundamentally conditions are all right today:

(1) The great mass of people in this country still have their Liberty Bonds. It is true that corporations and many small holders have sold theirs. The great bulk of wage-workers, however, still retain theirs, and they will not cease buying merchandise so long as they hold these Liberty Bonds.

(2) Prohibition is a great factor for prosperity, the importance of which is not fully realized. Previous to July, 1919, about \$3,000,000,000 a year was being spent by people of this country for drink. About twenty per cent. of this money has gone into the savings banks, but the balance has gone into building homes, buying merchandise, raising the standard of living. Whether 100 per cent. prohibition has come to stay indefinitely, I do not know, but it surely must be as much of a factor for good business during the next few years as it has been during the past year and a half.

(3) The Federal Reserve system is working well. It is popular to criticize the Federal Reserve Board, but such criticism is usually directed against their good acts rather than against their lax ones. The Federal Reserve system cannot expand indefinitely, any more than can a rubber ball; but we have substituted an elastic system, the good results of which are bound to continue.

(4) Advertising has become a great economic factor for producing and steadying of business. The old form of advertising which was largely of the luxury type, has been replaced by a new productive form. This new form of advertising has come to stay, and could be a great factor in preventing business panics such as we have had in the past.

(5) Though our foreign trade has greatly grown during the past five years, it is no greater in proportion to our total trade than it ever was. If we lost all our export trade today, it would reduce our total business only five per cent. Hence, there is no reason why we should become panic-stricken because our foreign trade is falling off.

(6) Standardization in manufacturing is rapidly increasing. Great improvement can still be made along these lines. The Ford system can be applied to a great many more commodities than automobiles. Concerns that used to manufacture 10,000 different articles are now doubling their capacity, but halving the number of articles they produce. All this is along the lines of efficiency and tends to continue prosperity.

(7) The seasonable fluctuations in industry and commerce are being gradually ironed out. Part of the loss through seasonable manufacturing and purchasing is being eliminated by concerns taking on different lines. Thus the coal merchant is going into the ice business and vice versa. Much of the difficulty, however, has been due to custom and this bad custom is rapidly being changed.

(8) Taxation will surely be reduced. Not only will the new administration reduce expenditures, but our system of taxation will be changed so as to encourage production rather than penalize it.

(9) Modern education for executives and employees is rapidly being introduced. Industrial education is constantly growing.

(10) The United States has accumulated great wealth during the past five years, and has paid almost all of its foreign indebtedness. We are now a creditor nation instead of a debtor nation. Our people are the richest of any on the face of the earth.

Must be Change in Motives.

Let us not make the mistake that although conditions are fundamentally sound we can bring back prosperity by mere thinking that everything is all right. The optimistic salesmanager who simply says, "think business is good and it will be good," is as far wrong as the pessimistic purchasing agent who thinks that the country is going to the bow-wows. Although the difficulty today is spiritual or psychological, and something more is needed than simply a change in our thinking, there must be a change in our motives. The wage worker and the employer today need to be "born again." He must change his point of view toward life and have new and better motives. Then prosperity will return.

How long will this depression last ? It will last until we substitute industry for indolence, integrity for dishonesty, service for selfishness ; until we get the right point of view toward life, and realize, as the speakers this morning have suggested that we are here to serve our fellow men ; that we are to pull the cart instead of ride in the cart, and that when we come to the end of our lives the question will be asked not, how much have you got, but how you got it—how you got it, and how did you use it ?

Unfortunately we learn only through experience. Yes, but it is more than that ; experience does ninety-five per cent. of the teaching, and our schools and colleges do the remaining five per cent. Men learn to do right only through religion and experience ; only through spiritual development and through suffering. And the period of depression that we are in today must last long enough to have people learn from experience that it pays to work, that it pays to save, that it pays to serve, and that it pays to be honest.

When Will Prosperity Return ?

When will this be ? Some experts prophesy that the worst has already taken place and that we are now on the up-grade ; others say that it will be two or three years before prosperity returns. My own belief is that unless there is a spiritual renaissance we are going into a long period (covering a number of years) of gradually declining wages, decreasing interest rates, lower prices. I do, however, believe that the volume of business—measured by yards, bushels and tons—will come back sooner than most people believe. The year 1922 should show a change for the better. Then the men who do things may return to their desks convinced that God's way is best. Then I hope that fifty-one per cent. of the people may have learned their lesson, or at least have begun to study their lesson. If this guess is right, it means that we all should at once begin to prepare for better business next year. Above all things, however, let us remember that in order to have better business next year, we must be better ourselves between now and then.

(From Canadian Finance)

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PREFERENCE SHARES

THE writer of "City Notes" in The Evening Standard recently commented on the fact that preference shares have no attraction for many investors. "In the old days," he says, "when a company could borrow on Preference shares at 5 to 6 per cent., and the power was restricted to "one-half or one-third of the Ordinary capital, the Preference share was probably entitled to a halo. Now it is no uncommon experience for the Preference capital to exceed the Ordinary, and as the security of the latter diminishes, so that of the former becomes less and less. And always there is the danger that the company may swamp both issues of capital by Debentures; it is important that Articles of Association should be studied regarding powers in this respect. Moreover, the sanctity of a Preference share has often been ignored in the last few years; directors have found ways of wriggling out of responsibilities in connection therewith, and by withholding voting rights have experienced little difficulty in doing so. It is, not surprising therefore, that many people have no regard for the Preference share; there is good ground for their attitude. At the same time, a vast number of Preference shares are infinitely better than Ordinary, and a little discrimination should enable the investor to choose between the desirable and the undesirable."

GOOD WILL.

Did you ever pause to wonder why "good will" is usually placed on the balance sheet at anything from one dollar to millions? The reason is simply that "good will" is an asset the worth of which cannot be estimated even approximately. It is the most valuable asset a business man has. Take away the "good will" of a house, and it will summarily disappear into the oblivion of failure.

"Good will" is the result of satisfactory dealings extending over a period of time. The practical application of the principle of the "square deal" makes for "good will."

ACCOUNTING PRINCIPLES

P. H. B. DAWSON, F. C. A., of Fort William, recently addressed a gathering in that city, taking for his subject, "Accounting Principles." He dealt with this subject from the angle of the bookkeeper of the ordinary business firm, and described the various processes of accounting necessitated in establishing a complete record of every transaction carried out by the firm. In speaking of single and double entry bookkeeping, the lecturer said that the real bookkeeping was double entry and declined to consider single entry as being a serious attempt to keep books. He intimated that all bookkeeping tuition should begin with double entry direct. The old system of bound cash books, journals and ledgers he considered superior to the synoptic, which had such a vogue some years ago, and which the lecturer would like to see scrapped. Whatever advantages the synoptic system has are counterbalanced by its defects.

Mr., Dawson pointed out the necessity for detail and accuracy and gave the banks a rub as to the manner in which bank pass books were kept, without, in many instances, recording the year of the entries. Costing systems should also, he said, be an integral part of the accounting of any manufacturing firm.

In conclusion, Mr. Dawson spoke upon the ethics of accounting, pointing out that the accountant was a man in a fiduciary position, whose integrity should be beyond question as should be his fidelity to his employers. Petty gossip should never pass his lips, and he should feel that he is the confidential man of the firm, through whom there should be no leaks, revealing matters that should be secret. He must also exercise firmness in resisting all suggestions of weakness or compromise in dealing with business matters.

THE EXCHANGE PROBLEM.

American bankers, manufacturers, and exporters are urged to do everything in their power to bring back to parity the Canadian-United States exchanges, in an excellent booklet on the Dominion which has just been issued by the Bankers Trust Company of New York. Reference is made to the increasing strength of the Made-in Canada campaign and the writer continues :—

"Canadian men of business believe that the world exchange situation threatens seriously to curtail orders from overseas, especially for manufactures, and if the slack is to be taken up it must be by an increased support from the home market.

"It is important that American manufactures and exporters, as well as our bankers, should carefully note these facts and do everything in their power to bring back to parity the Canadian United States exchanges. We cannot afford to be indifferent to a condition which so vitally affects trade relations with so important a customer as the Dominion of Canada. On the other hand, as is fully

realized by enlightened public opinion both in Canada and in our own country, as well as in the money centres overseas, this is not merely a Canadian-United States problem. It is a world problem. the only permanently effective remedy for which is for the world once more to settle down to work, to stop all governmental and private waste, for the governments to stop new borrowings and pay their way from taxation and to pay off or refund governmental floating debts and for the people to pay for their government bonds and take them out of bank loans. When these things are done this world dislocation of the exchanges and of industry will be righted and not until then. It is encouraging to know that in Great Britian and in Canada, as well as in our own country, such measures are being inaugurated. If courageously carried through, they should in the not distant future bring about the needful readjustments."

SKATING ON THIN ICE.

THE distinctions between proper and improper advertising for a Chartered Accountant are sometimes difficult to define. There should, however, be no difference of opinion as to the impropriety of any sort of advertising by a member of our profession which includes or implies a false pretence. An instance of the kind just come under notice, seems to suggest that a note of warning is in order.

In the neighboring republic an important industry has developed which professes to furnish what is known as "service." Some of the corporations furnishing such service are highly reputable, others, not so reputable, lend themselves to methods which depend for success upon persuading decent people that it is good business to fool the public. In this category is a "Monthly Letter on Current Business Conditions," the pages of which are made up of clippings from other publications on current market topics. The writers of the articles are not disclosed, nor the name of the corporation supplying the alleged service, but the whole thing is put out on the responsibility of a firm of Chartered Accountants who say :
To our Clients and Friends :

We beg to announce that, beginning with the November issue, this letter on business conditions will be mailed early each month.

This letter deals largely with American condition, which can, in general, be understood as anticipating conditions in Canada by a few months.

If you desire extra copies from time to time, or wish us to place a friend on our mailing list, we will be delighted to comply with your request.

Do not overlook the fact that our Statistical Department is prepared to supply you, without charge, with information, not only as to commodity and General Business Conditions; but also with statistics as to your own business.

(Firm of Chartered Accountants).

We hope that there are not many of our Chartered Accountants who will think this sort of thing is good business. No client requires such service from his accountant. He knows that it is not given without charge, whatever the pretence may be. He knows that American conditions do not reflect—even generally—Canadian conditions a few months hence. He knows that he can get better “service” from the daily papers. He knows that he is expected to help attract other accountant’s clients by putting them on the mailing list, or ordering extra copies for them. He knows that Chartered Accountants are not supposed to do that sort of thing.

Our good friends are, we fear, skating on rather thin ice.

THE ONTARIO INSTITUTE INSTRUCTIONAL COURSES.

THIS important undertaking is now assuming definite shape, and the Committee having the work in charge, has printed for general distribution a twelve page booklet, intended to inform the students upon essential features of the plan adopted, and the facilities provided.

As this number of the Magazine is going to press, we have received from the Board of Instruction advance copies of the Syllabus of the First, Second and Third year work, which we now publish for the benefit of our readers. The Fourth year work will be open only to those who have completed the Third year study, so that for the present no announcements respecting it will be made.

Ontario students will be required to take such portion of the complete four years course as is intended to prepare them for the Examinations they have yet to pass. Students in other Provinces may do the same, or take the entire course as they prefer. Those intending to commence with the Spring term opening at the beginning of February, must complete their arrangements by January fifteenth. Confirmation by wire is advisable, in cases where ample time margin has not been allowed.

In the schedules which follow, lessons 1 to 13 occur in the first half and lessons 14 to 26 in the second half, whether the instruction begins with the Spring or the Fall term.

INSTITUTE OF CHARTERED ACCOUNTANTS OF ONTARIO.

INSTRUCTION COURSES.

SYLLABUS, FIRST YEAR COURSE.

(FOR PRIMARY EXAMINATION).

Lesson Number	Subject	Comprising
1.	ACCOUNTING.	
	Object of bookkeeping. Method and forms used in account- ing for sales. The Cash Book. The Ledger. The Trial Balance.	
2.	ACCOUNTING.	
	The Purchase Book. Subdivision of Ledger. Analysis of Trial Balance. Preparation of Trading and Profit and Loss Statements. Statement of Assets and Liabilities.	
3.	ARITHMETIC.	
	Review of simple rules. Practical short cuts and checks. Common and Decimal Fractions. Tables of Values, Weights and Measures, Practical Mensuration, Powers and Roots.	
4.	ACCOUNTING.	
	Bank and Exchange transactions. Bank reconciliation. Use of Vouchers. Deferred Charges. Locating Trial Balance errors. Correction of errors.	
5.	ARITHMETIC.	
	Percentage and its applications in Trade and Cost Dis- counts; Commission and Brokerage; Insurance; Taxes; Duties, Exchange, Domestic and Foreign; Stocks and Bonds; Profit and Loss, Division of Profits. Analysis of Financial Statements; Pay Roll Calculations.	
6.	ACCOUNTING.	
	Purchases. Treatment of Inward Freight. Purchase re- bates and allowances. Sales. Sales rebates and allow- ances. Trade Discount. Cash Discount.	
7.	ARITHMETIC.	
	Simple and Compound Interest. Methods of calculating Simple Interest. Applications of Simple Interest. Bank Discount. Significance of Compound Interest. Calculating Compound Interest. Present worth. Compound Discount.	
8.	ACCOUNTING.	
	Petty Cash Book. Imprest cash system. Credit reports.	

9. ACCOUNTING.

Closing the books. Inventory Accounts. Estimating Deferred Charges and Accrued Liabilities. Provision for Depreciation and Bad Debts. Comparative Statements.

10. BUSINESS CORRESPONDENCE.

Objectives in Letter Writing. The Form—heading, address, salutation, body, complimentary close. Practical details—paper, envelope, spacing, margins, folding, etc. Application of laws of composition to letter writing—spelling, punctuation, sentence and paragraph structure, etc.

11. ACCOUNTING.

Bills of Exchange, Interest and Discount, Partnership Accounts.

12. ACCOUNTING.

C. O. D. Shipments, Controlling Accounts, Subsidiary Accounts. Contingent Liabilities. Classification of Assets.

13. OFFICE METHODS.

Handling office mail. Desk and despatch of work. The filing system. Methods. Stenographic department—Organization and equipment. Messenger Service. Telephone and Telegraph Service. Attitude to work. Personal appearance.

14. ACCOUNTING.

General character of Limited Company. Opening entries in books of a Company. Closing Partnership. Accounts. Special corporation records and forms.

15. ACCOUNTING.

Use of Columnar Journals. Installation and use of Departmental Accounts. Replacement of Fixed Assets. Accounts in Foreign Currencies. Depreciation. Bad Debts. Interim Financial Statements.

16. MERCANTILE LAW.

Negotiable Instruments. Introduction. Elements of Law of Contracts. Saleability. Transferability. Negotiability.

17. ACCOUNTING.

Consignments. Accounting for consignment in books of consignor. Accounting for consignment in books of consignee. Current Accounts.

18. ACCOUNTING.

Reserves and Reserve Funds. Disposition of Profits. Capital and Revenue expenditures.

19. MERCANTILE LAW.

Promissory Notes. Form, Endorsement, Delivery, Presentment, Dishonour, Protest, Liability of parties, etc.

20. ACCOUNTING.

Branch Accounts. Bankruptcy forms, Dividends.

21. ACCOUNTING.

Miscellaneous matters affecting Limited Companies. Preference Shares. Discount or Premium on Shares and Bonds. Treasury Stock. Forfeited Stock. Calls and Installments. Organization Expenses.

22. MERCANTILE LAW.

Drafts or Inland Bills. Foreign Bills of Exchange. Letters of Credit. Bank Cheques.

23. ACCOUNTING.

Manufacturing Accounts and Forms. Relation of Manufacturing Account to Trading Account. Manufacturing Accounting Forms.

24. MERCANTILE LAW.

Bills of Lading. Warehouse Receipts. Bonds and Debentures.

25. ACCOUNTING.

Arrangement of General Ledger Accounts. Voucher System. Departmental Ledgers. Merchandise Account.

26. BUSINESS CORRESPONDENCE.

Effective business letters, Comparative study, principles, etc. Types of Letters—application, recommendation, complaints and adjustments, collections. Inter Office Letters. Preparation of Reports. The Form Letter.

SYLLABUS, SECOND YEAR.

(FOR INTERMEDIATE EXAMINATION).

1. ACCOUNTING.

Single and Double entry bookkeeping. Definition of single entry. Limitations of single entry. Statement of assets and Liabilities. Ascertaining profits from single entry books. Changing from single entry to double entry. Principles of double entry. The account. Classification of Accounts. The Trial balance.

2. ACCOUNTING.

The Balance Sheet. Definition. Division of assets and liabilities. Forms of balance sheets. Analysis of principal items of balance sheet under following heads :—Current or active assets, Fixed or invested assets, intangible assets, Deferred and prepaid charges. Current liabilities, Fixed or deferred liabilities, Reserves—specific treatment in balance sheet. Condensing balance sheets. Capital—Authorized, Subscribed, Paid up, Treasury stock. Reserve—general. Surplus and deficit. Contingent liabilities and assets. General character of certificate. Disposal Statement.

3. ACCOUNTING.

Profit and Loss. Divisions. Purposes. Manufacturing Account—Form and arrangement. Trading Account—Form and arrangement. Profit and Loss Account. Surplus Account.

4. ACCOUNTING.

Reserves and Reserve Funds. Definitions. Distinctions. Purposes. Sinking Funds. Secret Reserves. Investment of Funds. Depreciation. Contingent Reserves.

5. MERCANTILE LAW.

Introduction. The Field of Law. The Formation of Contracts. The Operation and Discharge of Contracts. The Limitations of Actions on Contracts. Special Contracts as to Credits. Loans and Banking Operations. Guarantee and Suretyship.

6. ACCOUNTING.

Partnerships. Various forms of Partnerships and Partnership relations. The Agreement. Capital Accounts. Treatment of Interest on Capital. Drawing Accounts and Salaries. Division of Profits. Lease to Partnership by a Partner. Goodwill. Treatment of Capital Accounts: On Sale of Interest to Others; On Dissolution; In Bankruptcy. Conversion of Partnership into Limited Liability Company.

7. ACCOUNTING.

Limited Company Accounts. Kinds of Companies. Issue of Capital Stock. Classes of Stock. Discount and Premium on Stock. Issue of Bonds. Discount and Premium on Bonds. Special Books and Records. Surplus. Dividends.

8. ACCOUNTING.

Sales, Consignments, Branch Accounts. Contract to sell. Sale. C. O. D. Sales. Sale for future delivery. Sale on approval. Sale or return. Installment Sales. Consignment:—Entries in books of consignor. Entries in books of consignee, Valuation of goods on consignment for Inventory purposes. Branch Accounts:—Variations in methods employed in practice.

9. MERCANTILE LAW.

Special contracts as to Goods:—Bills of Sale Act, Bulk Sales Act, Bailment, Carriage, Insurance. Conduct of Business through Representatives:—Principal and agent, Master and Servant. Personal Property:—Kinds and Estates, Acquisition and Transfer.

10. ACCOUNTING.

Bankruptcy. General procedure. Statement of Affairs. Deficiency Account. Realization and Liquidation. Receiver carrying on business as a going concern. Executors' and Administrators' Accounts.

11. BUSINESS FINANCE.

Introductory. Relation to Accounting. The Financial problems of a Business Enterprise.—How much Capital is needed. How to get it. What to do with it. Temporary versus Permanent Financing. Floating versus Funded Debt. Working Capital. Factors determining amount needed. Sources of : Trade Credit, Bank Credit, Short-term Notes. Collateral, Collections. Internal Financial Management :—Budgets, Financial Standards. Dividend Policy. Factors governing building up of and investment of surplus.

12. ACCOUNTING.

Accounting System. Preliminary steps to be taken in installation of system. Problems of typical enterprise. Forms and records.

13. OFFICE MANAGEMENT.

Principles of Office Management. Organization types and procedure. Location, layout and equipment. Labor—saving devices. Organization of general office Service—Stenographers, messengers, etc. Handling of staff—discipline, incentives.

14. AUDITING.

Introductory. Appointment of Auditors. Nature and definition of an audit. Objects of an audit. Various classes of audits and their relative advantages. Conduct of an Audit. Qualities required of an Auditor. Single Entry Accounts. Double Entry Accounts. Form and criticism of Balance Sheet. Legal Liabilities of Auditor. Clauses in Companies' Accounts. Local statutes and decisions. British decisions.

15. ARITHMETIC.

Review of more difficult phases of Primary Arithmetic. Difficult problems, Partnership adjustments. Average and its commercial applications. Commercial applications of logarithms. Commercial applications of the slide rule.

16. AUDITING.

Cash Transactions. Internal check. Petty Cash Accounts—Imprest and otherwise. Disbursements—Vouchers and authority. Distribution of charges. Receipts—Interest on mortgages, bonds and other investments, rent and other revenue. Principal items repaid. Banking Transactions :—Deposits, Verification of duplicate deposit slips from cash receipts, and vice versa. Cash cheques, handled through Cash Book. Reconciliation of bank balance. Discounts taken or given.

17. ARITHMETIC.

Compound interest, More difficult problems. Arithmetic—Progression (Geometric progression). Annuities, amount and present worth.

18. AUDITING.

Trading Transactions. Purchases, internal checks—authority, receiving, etc. Purchase Returns and Trade Discounts. Sales :—Sales and Contracts to sell C. O. D. Sales. Sales for future delivery. Sales on approval. Sales or return. Goods on consignment. Sales, returns and allowances. Audit of Sales Ledger. Package and empties. Commission. Selling Expenses, advertising, etc. Sales Taxes

19. ARITHMETIC.

Valuation of bonds. Sinking funds. Amortization. Depreciation. Graphical representation.

20. STATUTE LAW.

Partnership. Basis in Provincial Act or Common Law. Classes of Partnerships. Capacity to form. Formation and agreement. Powers and Liabilities of partners as to outsiders. Rights and Duties with respect to each other. Dissolution and its effects. Limited Partnerships. Registration.

21. AUDITING.

Balance Sheet material. Verification of Assets :—Cash, Notes and Accounts. Receivable. Land and Buildings. Machinery and Equipment, Stock in Trade. Valuation of Assets :—Fixed, Current, Wasting. Depreciation :—General consideration. Special consideration with respect to each class of assets. Repairs and Renewals. General Reserves. Specific Reserves. Deferred Revenue Expenditures. Contingent Liabilities.

22. STATUTE LAW.

The Dominion Companies' Act. Kinds of Companies. Formation. Capital. Prospectus. Powers. Rights, duties and liabilities of Directors, Officers, Agents and Shareholders. Penalties. Dissolution.

23. STATUTE LAW.

The Companies' Acts (continued).

24. STATUTE LAW.

A comparative study of the Laws of the various Provinces affecting Limited Companies.

25. AUDITING.

Limited Companies—Appointment of Auditors. Status of the Auditor. Power and Duties of the Auditor. The Audit Report. Published Balance Sheet. Company Acts. Mortgages. Organization Expenses. Liabilities and duties of directors. Minute Books. Secret of Internal Reserves. Share Capital : Calls on Capital Stock Subscriptions. Stock transfers. Dividends. Verification of Stock Ledger and Shareholders' List.

26. AUDITING.

Partnerships. Partnership Agreements. Adjustment of Rights of Partners :—Interest in Capital, Partners' Salaries, Partners' Drawings, Division of Profits. Dissolution of partnership. Distribution of assets of firms upon dissolution.

SYLLABUS, THIRD YEAR.

(FOR FINAL EXAMINATIONS).

1. ACCOUNTING.

The Balance Sheet. Fundamental purpose of the accountant's Balance Sheet. Balance Sheets of typical industries. General principles of valuation and their application to :—Rate making in the public utility industry ; Taxation—Municipal and Federal ; Insurance adjustments ; Accounting. Capital and Revenue. Interest during construction.

2. ACCOUNTING.

Profit and Loss. Nature and determination of profits. Fluctuation in market values. Profits and Savings. Extraordinary Profits. Profits available for dividends.

3. STATUTE LAW.

Review of Company Law. The Insurance Act. The Bank Act (especially Sections 88 and following). Acts respecting Trustees, etc.

4. ACCOUNTING.

Company Accounts. Treasury Stock. Surplus. Dividends in General. Unpaid dividends on cumulative preferred shares. Company Accounts and Records. Stock of no par value. Redemption and conversion of securities. Reduction of Capital.

5. STATUTE LAW.

The Dominion Income Tax Act. Definition of Income. Exceptions, Exemptions and Allowances, Corporations and partnerships. Holding Companies. Non-residents. Returns and books. Assessment and penalties. Appeals.

6. ACCOUNTING.

Depreciation, Reserves, Fire Loss. Necessity for provision for depreciation. Methods of determining amount of depreciation allowance. Methods of providing for depreciation in accounts. Nature of Reserves, Reserve Funds and Sinking Funds. Accounting for Reserves, Reserve Funds and Sinking Funds. Fire Loss Adjustments.

7. STATUTE LAW.

Bankruptcy. Historical note. Dominion Bankruptcy Act. Courts with jurisdiction. Appointment of Trustees and Inspectors. Grounds of Bankruptcy. Powers and Duties of Trustees. Meetings of Creditors. Preferences, assignments and priority of claims. Duties, offences and penalties with respect to debtor. Extension and composition. Discharge of bankrupt. Present range of Dominion Winding-up Act.

8. STATUTE LAW.

The Dominion Bankruptcy Act. (continued).

9. ACCOUNTING.

Branch Accounts. Foreign Exchange. Treatment of fixed assets at branch. Treatment of current accounts at branch. Variation of methods of accounting for home office and branches. Foreign Trading. Foreign Exchange.

10. ACCOUNTING.

Reconstruction and Re-organization :—Exchange of shares and other securities. Treatment of equity of each class of security holder in reconstruction. Accounting procedure herein. Mergers and Consolidations :—Preparation of Consolidated Balance Sheets under each of the following conditions : Purchase of subsidiary shareholders equity at par ; Purchase of subsidiary shareholders equity at a discount ; Purchase of subsidiary shareholders equity at a premium. Treatment of minority shareholders' interests not purchased by parent company. Inter-company accounts and financing. Inter-company profit and loss accounts.

11. ACCOUNTING.

Mergers and Consolidations. Investment account of parent company. Profits of subsidiary earned prior to date of purchase by parent company. Operating losses of subsidiary. Inter-company notes discounted. Inter-company profits and losses in the case of minority interests.

12. STATUTE LAW.

The Winding-up Acts. The Acts respecting Trustees and Executors.

13. BUSINESS INVESTIGATIONS.

General character. Investigations of the Possibilities of a new enterprise. Investigation of an established business for :—Prospective investor, Creditors and bankers, Shareholders and bondholders. Investigation of effect of amalgamation on interests of :—Common Shareholders, Preferred Shareholders, Other Security holders. Investigation for the purpose of working out the financial plan of reorganization, amalgamation or merger.

14. BUSINESS INVESTIGATIONS.

Investigation for the purpose of establishing present day values of the assets of a going concern. Investigation for the purpose of insurance, and fire loss adjustments. Investigation for detection of fraud. Income tax investigation. Rates of public utilities. Other special cases.

15. ACCOUNTING.

Cost Accounts. Principles. Unit of Cost. Departmentalization. Accounting for Material. Accounting for labor. Accounting for expenses. Distribution of Factory Burden and Overhead. Types of cost systems :—Estimating, Process, Job Order.

16. ACCOUNTING.

Systems. Underlying principles of system work. Problems of typical enterprises. Mechanical devices.

17. ACCOUNTING.

Income Tax. Computation of Taxable Income :—Allowable deductions. Taxable gains. Preparation of returns and supporting schedules.

18. ACCOUNTING.

Specialties. Mortgage Companies. Trust Companies. Insurance Companies. Mining Companies. Lumber Companies. Real Estate. Public Utilities. Contractors.

19. AUDITING.

Supervision of Audits. Determining the scope of an audit. Continuous Audit. Periodical Audit. Various Classes of Vouchers. Relation of Audit to System of Internal Check. Self Balancing Ledgers. General consideration in case of :—Consignments. Branch Accounts. Bills of Exchange. Companies.

20. AUDITING.

Specialties. Commercial Accounts. Manufacturing Accounts. Contractors. Hotels and Clubs. Mining Accounts. Mortgage Companies. Trust Companies. Insurance Companies. Public Utilities. Executors' Trustees' and Administrators' Accounts. Co-operative Societies. Professional Accounts.

21. AUDITING.

Audit of Balance Sheet. Valuation of Assets :—Fixed Assets, Current Assets. Auditors' Responsibility for Values. Verifying existence of Assets :—Land, Buildings and Equipment. Inventories, Securities, Accounts Receivable, Bills Receivable, Cash. Verifying liabilities. Fixed Liabilities. Contingent Liabilities, Capital and Surplus. Depreciation of different classes of assets. Provision for Doubtful Accounts. Organization Expenses. Secret Reserves. Foreign Exchange.

22. AUDITING.

Profits. Capital and Revenue, gains and losses. Nature of Profits. Appreciation of assets established by appraisal or competent authority. Revenue receipts and expenditures. Profits and savings. Interest during construction. Depreciation. Bad and doubtful accounts. Extraordinary Profits. Profits available for dividends.

23. ACCOUNTING.

Municipal Accounts. Balance Sheets. Revenue Accounts. Cash Receipts and Disbursements. Tax Rates. Placing Tax Roll on the Books. Accounting for daily transactions. Ledger and closing. Special books and records. Sinking Funds. Debenture Register.

24. AUDITING.

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25. AUDITING.

Audit Reports, Forms, etc.—Balance Sheet Forms. Profit and Loss Forms. Use of Schedules. Certificate to Shareholders. Qualifying Clauses.

26. LEGAL DECISIONS.

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THE RELATION OF ACCOUNTANCY TO ECONOMICS. *

BY SIR JOSIAH STAMP, K.B.E., D.Sc.

"Scientific Accountancy has been developing for some 50 years, but I cannot trace that it has yet made a single substantial contribution to economic science over its own field of the analysis of the results of industry, although it has practically a monopoly grip of the required data." This serious charge against accountants is made by Sir Josiah Stamp in the course of the following exceedingly interesting and important paper. He appeals to the younger generation of accountants to cultivate a more thorough knowledge of economics, and to bring the results of their knowledge to bear on existing theories.

In those pleasant little bickerings that sometimes take place between scientists of different orders, many are apt to place their studies in a kind of hierarchy, and deny the name of science to those which are ranged below their own. The mathematician, revelling in the exactness of his results, the unimpeachability of his premises, and the fact that two and two have never been detected in the act of making any more or less than four except under circumstances of extreme provocation at closing time, looks with some scorn upon the physicist who, in one generation, postulates ether and indivisible atoms, Newtonian gravitation and the conservation of energy and matter, and, in the next generation, seems to scrap the whole furniture and start afresh. The physicist and chemist in turn, with their wonderful facility for testing immediately any theory or hypothesis by isolating their factors in the laboratory and wringing a ruthless "yes" or "no" from their witnesses, have something like pity for the

* A paper read at the Autumnal Conference of the Society of Incorporated Accountants and Auditors in Liverpool, on 30th September 1921.

medical man who, while he knows that quinine is good for fever, seems to them not to have the faintest knowledge why it is. In their eyes, he has a "rule-of-thumb" procedure, evolved from a half co-ordinated experience, which is only a glorification of grandmother's remedies. To have to adopt the conclusions of such inductions, with a 50 or 60 per cent. accuracy in diagnosis and remedy, and at the same time to have no fundamental knowledge of the nature of the things dealt with, is to them a mere empirical fumbling after truth. The medical scientists and others like them, however, finding all human livers reasonably alike, and being generally able to alight upon the bile duct with commendable accuracy in all of us, whatever our size or color or political party, do satisfy one condition of a science, for they apply their knowledge of the known experimentally to the unknown, with a remarkable degree or percentage of success. There is, of course, some difference of opinion amongst us as to how far it is they who do it, and how far we do it ourselves because we *think* they are doing it ; but, at any rate, these people feel that they are certainly within the circle of the scientists who have an ordered body of knowledge from which they can derive certitude in generalization and in application to new cases. They also are within the magic circle of those who can make reasonable play with the glorious uniformity of nature.

The Position of Economics as a Science.

You are all familiar with the fact, however, that these people gibe at the so-called science of "Political Economy," which has one hand tied behind its back in its endeavor to catch an exceedingly intractable menagerie of human activities. The behavior of men in the pursuit of wealth, by co-operation with each other of an extremely diversified nature, seems to defy any sufficient uniformity in causation or effect from which can be drawn a generalization of the slightest use. It has been said that you can never tell what a lady will do in certain circumstances by the most intimate knowledge of what another lady has done in a similar case, nor even by what the lady herself did on a previous occasion. How much more incertitude, therefore, must be expected when we deal with every variety of the human race, of every nation and clime, of every degree of education and ignorance, of every environment, geographically and geologically, and with the widest range of social heritage. No exact science is possible, and it would appear that as fast as one has obtained some poor generalization of the truth applicable to the movements and actions of a few, the time-element itself would have destroyed its validity. The future will never repeat the literal conditions of the past. How can there be a science in such a welter ? And yet the human mind has struggled, with some success, during the last 160 years to construct one by postulating and isolating certain fundamental forces which seem general to a section of mankind ; and then,

by a deduction from these main premises, has ascertained the result of average human behavior. When this method was first worked upon, in the hands of one of its highest exponents, Ricardo, the hedonic impulse was allowed to go unhindered to its uttermost ripple of influence. There is no doubt that, like most new ideas, it was trusted too implicitly and carried too far. It brought the science into disrepute with its "economic man," at whom moralists like Ruskin and Carlyle pointed the finger of scorn. The economist was right in replying that he was not dealing with morals, and that he was entitled to isolate his own set of economic impulses and facts, and make his deductions. He was wrong, of course, in forgetting this isolation at the end, and regarding his conclusions as those which really governed or resulted from human action. He forgot that in the act of isolating certain impulses in order to see to what they led, he, so to speak, "denaturalised" them, and that before his results could be applied to human society as postulates of conduct, or even as explanations of human events, he had to reintroduce them into a world where religious, moral, political, social, national, racial and legislastic influences would buffet his poor little bantlings of conclusions about until they were hardly recognizable. That is why the work of Ruskin and Carlyle is such a monument of error viewed from the point of pure economics, and such a monument of truth viewed from the point of the whole duty of man.

The Peculiar Difficulties of Economics.

Must we conclude, then, that economics is necessarily an abstract science which loses its validity immediately it is reintroduced into human affairs? Surely not. We have learned by now that an abstract train of reasoning cannot long be profitably pursued without being checked by the main limiting extraneous influences of law, custom, race geography &c. We have also learned that no simple economic judgment is possible. Every case is the nicest balance of judgment of those several forces. In these days we have added social psychology and the power of mass or press suggestion as necessary elements in a complex of forces, which makes a judgment in economics one of the hardest mental disciplines the mind can attempt. Economics is, of course, one of the easiest branches of knowledge, so far as absorbing a body of doctrine is concerned, but it is also one of the hardest in its application, because of the power that it requires of assessing and and bringing together in one completed result so wide a range of different forces, varying both qualitatively and quantitatively. That is to say, economics strictly is not so much a body of knowledge as a mode of thought. It is in an unfavorable position compared with other branches of knowledge, in that it possesses to hardly any extent at all the power of experiment, and the testing of any hypothesis is a matter of extreme difficulty. One cannot take the factors into the laboratory and isolate them from other influences that one is anxious

shall not vitiate the results. You are dealing with human beings, both singly and in the mass, with all that vast complex of human passions, which as soon as it is analysed by the scientist loses its reality. It is true you can "nose" into a working man's establishment, and endeavor to generalize about his habits and his weekly budget. You may then get a sufficient amount of material of a homogeneous character from which to draw some satisfactory conclusions. But have you ever tried to do the same with the "self-respecting" members of the middle class, and to obtain a reliable body of knowledge as to the way men with £1,000 a year spend that income? You would no doubt get isolated budgets from sufficiently accessible people, but to secure enough budgets at one time, in one place, and of one class, to give a generalization of an accuracy comparable, we will say, with the accuracy of a reasonable chemical investigation, would defy your efforts. If this is so with the human element on what we might call its simplest quantitative side—a thing that is susceptible of exact record, revealed in one aspect, more or less grudgingly, to the tax surveyor—to what an appalling extent are you likely to fall short on the more complex and less arithmetical manifestations of human economics?

Statistical Verification of Theories.

Some valuable discoveries were made during the war as to the relation between human fatigue, or physiology, and hours of work. For example, at one time the Government found that they were getting too much of a certain product, more than was actually required for the operations in the field. It was naturally suggested, therefore, that the overtime being done by the workers should be reduced, and the hours of output be lessened. Dr. Collis warned his department that the effect would be the reverse, and the output would probably be increased. His warning was justified by the facts, for it was found that a reduction in the total hours of work would result in a sufficiently increased output per hour in the remaining hours to give an actually larger output than before. The point at which this process stops, and the steps in the relation between hours of work and output efficiency, are all beginning to become known as a part of actual industrial administration, but we need the actual statistical data for inspection.

Administration has not yet told us much, nor, indeed, examined to any extent, the psychological effect of an alteration in the wage-rate upon output. We know that in certain circumstances if you pay more you get more, but we also know there is a point at which an improved wage lessens output because the worker is aiming, not at the maximum amount he can get in money, but at a fixed figure with the least effort. There is little experience, however, of the quantitative nature of these generalizations, and experimental knowledge is of the crudest character.

The Need for Observation of Facts.

When you look over the whole field of economic teaching you will find very little that has been the result of what we might call "pure induction." John Stuart Mill's elaborations of the characteristics of successful peasant proprietorship from the instances of various nations where it obtained, is a classic example of induction, or something not derived by abstract reasoning from first principles. We know, too, of course, that the singularly accurate prophecies as to the effect of increasing gold supplies were partly deduction from abstract premises, and partly the application of historical experience. But the fact remains that broadly speaking, the first impulse is towards deductive reasoning, and the secondary test of its truth is its reasonable "fitness" under masses of conflicting conditions in practice.

Certainly, too, the Ricardian theory of rent, though it appears to proceed from a postulation of varying degrees of fertility and convenience in the geographical sense, combined with a postulate as to human desire to get the most with the least effort, was also at the same time a running comparison with the observed facts of life. The great controversy upon the historical school has happily died down, but we are all conscious that the peril to which that school is liable is the accumulation of enormous masses of historical facts undigested, and certainly incapable of yielding any generalized inductions of any value, without keen analytical and even mathematical assistance. While we have, to some extent, agreed upon the place and dangers of the historical or German school, economists are not yet agreed as to the value of the purely mathematical or Cambridge school. Though mathematics has great value in the hands of a few economists who can use it as a kind of shorthand of thought, enabling immense numbers of separate factors to be handled in a logical train of reasoning, at the same time it is still dealing with abstracted premises. We shall be agreed that experience and deduction are mutually dependent.

As Dr. Neville Keynes has rightly said, "While the method of "specific experience is regarded as altogether inefficacious for the "discovery of economic laws, and as incapable of affording independent proof of their validity, it is nevertheless considered to form an "indispensable supplement to the deductive reasoning that constitutes "the framework of the science."

The Use of Economic Jargon

I may mention finally one fearful disability under which economists labors as compared with other sciences in its endeavor to become exact. It is that of language or terminology. Instead of having an exact terminology and using a language with strictly defined connotation, economists have to use the everyday terms of commerce and of life, with all their shifting meanings and they can only give these

a constant and precise significance for the purpose by adding a forbidding jargon of their own. The word "value," for example, has to be turned into "real value," "nominal value," "value in use," "value in exchange," marginal value," and so on. Difficulties that can arise from the equivocal use of words in the application of a science are enormous, and in discussion they are disconcerting. One is reminded of the young lady in *Punch* who stretched out a daintily clad foot for her fiancé's inspection with the question, "And what do you think of my new shoes?" and his enthusiastic reply, "Immense!"

Economics without Tears.

This necessity for using common terms without confusion is not merely a drawback to the economist himself, making thought difficult, but, by reason of it, his course is hampered on all sides by well-meaning charlatans. Everyone would recognize that to become a chemist requires years of close application, and the mastery of a special terminology and a special technology. The same respect is paid to geology, physics and engineering, but no such barrier exists for economics. It is about the everyday affairs that men are all mixed up in—and most men pride themselves on being both practical and businesslike—and it uses their everyday terms. The plain man is resentful if a book on economics does not yield itself to his comprehension without delay; he clearly regards the subject as one to be grasped without a severe mental discipline, by fireside reading of suitable literature. In such manner, indeed, on its descriptive side it can be studied, and many of its conclusions mastered. But the reading of such excellent books as Clay's "Economics for the general reader" or "Gides' Principles" will no more make a man an economist than reading Ball's "Story of the Heavens" will make him an astronomer, and the one will no more entitle him to pose as an oracle on the remedy for the present exchanges than the other will to foretell an eclipse. It is one thing to be acquainted with the latest teachings and conclusions in any body of knowledge, and quite another to possess its technique, and be able to appreciate those results by a daily sense of their true application. So the serious economic worker finds, to an extent that is quite unknown to the chemist and the astronomer, his way, both in discussion and literature, encumbered with the litter made by dabblers and terribly positive people who "know from practical experience." Your practical man is often the most unguarded and dangerous theorist of all, because of his habit of cocksure generalization from isolated and inadequate data, and his proneness to mistake visible and superficial currents for dominating forces. "Few men," says General Walker, "are presumptuous enough to dispute with the chemist or mechanic upon points connected with the studies and labors of his life, but almost any man who can read and write feels himself at liberty to form and maintain opinions of his own upon trade and money. The economic literature of every

succeeding year embraces works conceived in the true scientific spirit, and works exhibiting the most vulgar ignorance of economic history and the most flagrant contempt for the conditions of economic investigation. It is much as if astrology were being pursued side by side with astronomy, or alchemy with chemistry."

No science demands, for its most successful pursuit, so constant a humility as economics, and the personal experience of each man has to be kept in its place as merely one item in a large mass of data from which alone the truth can emerge.

The Place of Statistics.

What must strike us all, however, is the extraordinary dependence of what I might call a more exact science of economics upon its handmaid, statistics. Statistics, of course, is a science running through all the sciences in so far as they are dependent upon quantities, numerical measurements and tests, and the presence or absence of given factors susceptible of measurement. She is ancillary to all the sciences, and she will yet raise medicine, for example, from those empirical, hand-to-mouth lines along which it has so long toiled.

But an improved statistical technique in the handling of social data is absolutely vital to the further progress of economic science. With the awful example of Mill before me, when he said that the main lines of the theory of value had been worked out, and Jevons and Marshall had not yet come, I may venture to say that we have almost reached a limit of profitability along the old lines of deductive reasoning, and the future progress depends to an extraordinary extent, upon what I might call statistical verification. Thirty years ago, of course, statistics meant the arithmetic of addition, subtraction, and multiplication. It meant, for example, the total trade done, the total profits made, the number of people born, number dead, or the number of acres under cultivation. Today, to the most of us, it means vastly more. It now means the extent of the presence or absence of vital factors in a series of phenomena, and the presence or absence of some other factor in another series of phenomena, and the extent to which correlation may be shown to exist between the two in such a way that it can be said, without much doubt, that one factor is the cause or effect of the other, or, at any rate, that they are the common effects of some third cause. The dependence of particular kinds of disease upon particular densities of population, or particular classes of employment, or particular ages of inhabitants can be tested under severely scientific conditions by means that, two decades ago, were practically unknown. The wider use of the co-efficient of correlation is likely to be a most powerful engine in the elucidation of truth. Its application to the social sciences in a verification of economic hypotheses may be more difficult because here something more than quantitative elements are involved, or these elements are hard to measure. Suppose you have to test your hoary generalization that

red-headed people are hot-tempered, or that Scotchmen are dense, or that Oxford men are "high falutin'," you must have a *measure* of those qualities of temper, or denseness, or of "high falutin'ness" which can be expressed quantitatively before you can apply the coefficient of correlation. I assume also numerical grading for the auburn spectrum from delicate ginger to chestnut and for a table of Caledonian affinity, but the number of terms up at the Varsity presents no difficulty. As an example of such correlation in immeasurables, I remember reviewing the work of an American professor who recently tried to correlate the degree of education and proficiency in general knowledge with the belief in the existence of God, or in future life; and he claimed to prove, in what we should call a correlative sense, that this belief diminished strictly with the degree of intelligence and knowledge possessed.

A second development of statistics, along the lines of the theory of probability, is in the important principle of "sampling." This is of the highest moment in the economics of business, where it is impossible to rope all the cases into an investigation. Under certain conditions, 20 per cent., or even 5 per cent., samples may yield satisfactory and reliable results, and it is the aim of the study today to develop investigations along these lines. But if these conditions are not observed, and certain tests applied, the results may be disastrous.

The Education of Accountants.

It is just ten years ago since Mr. Hewetson Nelson, at your Annual Conference in Dublin, pleaded for certain improvements in the system of professional training. He asked for the broader curriculum which should give the lie at long last to the old saying, hitherto so true, that "the merely professional man is always a narrow man." He drew special attention to the then growing association of accountancy, economics and statistics in various university courses. The ideals laid out broadly by him led to an early consideration of the requirements of professional education by your able and energetic Secretary, Mr. Garrett, and the idea of a cultural addition to the curriculum, nearly always with some reference to economics, took shape rapidly thereafter. Your ultimate decision to include elementary economics and statistics as well as costing in your professional examinations depended, I do not doubt, in the minds of some upon the more or less indirect effect which these subjects would have upon the "complete accountant" as a supreme technician, but others may have thought more of the cultural broadening effects on his mind than any pointed improvements in technique. Now you could get such general breadth of view doubtless by other subjects, such as history, political ideas, the principles of criticism, architecture, the methods of science, or particular sciences from anthropology to Egyptology, for there is no royal road to breadth of view and to the capacity to enjoy a full and rounded life

rich in varied interests. But in the choice of economics you are doing something to get this effect with a direct economy and natural fitness. If you had to choose two subjects to broaden the rural postman's mind and life, would you take botany and natural history or conic sections and Italian literature? His everyday life gives abundant opportunities for the natural play of mind upon matters in the one case, but it gives no facilities in the other. There is not a little chance that botany and natural history might themselves get broadened also through your selection, for here and there you would quicken into life a really creative interest—some Robert Dick, or Benjamin Harrison, or Jean Henri Fabre, of the wayside. If two subjects serve your one purpose equally well you may perhaps differ in your views as to whether you would choose the one in which interest would be daily fed, or avoid it because you feared to be “fed up”. One has, indeed, some sympathy with a man who has seen enough of figures in his daily avocation, and looks for colour, sound, rhythm or motion in his leisure. But the case is a little different when the victim of our attentions is to travel daily a road that none other treads; when, so to speak, his life is a rich monopoly of material, for there is then a new responsibility in the choice we are making. Such a monopoly the accountant possesses in his daily work, when he handles the facts of economics. ✓

What Economics can do for Accountancy.

There are obvious ways in which statistics and costing can make a better accountant. There are less obvious and direct ways in which economic thinking may also do so. In the higher walks of policy, in membership of any committees of national importance to which his professional competency may lead him, he must be the better for a large grasp of the problems in hand in their wide economic significance, and for being more than a legally trained “figure merchant,” skilled in the presentation of numerical records. Even in a narrower sense, the development of accountancy with the evolution of industry and society is going to be better if its received principles are shot through with light from other angles than the legal, the financial, and the technical. Think of the economic conception of capital as distinct from income, and then deliberate upon the sorry figure that is cut in the light of it by your modern fetish of a “safe” or “sound” Balance Sheet, which lies in almost every line, and yet is approved by you because it overstates no assets and understates no liabilities, while it has valuable premises written down to negligible figures and reserves hidden in innumerable places or profits “held up” and “tucked away.” “The truth, the whole truth, and nothing but the truth,” cannot be derived from the modern Balance Sheet so vaunted for its prudence; but prudence is just as possible without departing from what a Balance Sheet ought to be—a faithful record of the employment of the total capital in-

vested in the business, whether as an original outlay or retained profits, from which the true rate of profit on invested capital can be determined. Has the shareholder who wishes to sell his holding no rights as to some real knowledge of the value of what he is selling ? But I detest from pursuing a topic that will doubtless array you solidly against me to a man.

They Have Eyes but They See Not.

Theorising is a natural process, and we employ it in every walk of life. Although in scientific methods we may give observation a theoretic priority, nevertheless we often observe only what we look for, what we theorise over, and the two processes go hand in hand. But the ferment of thought and inquiry must start first and work upon the facts mentally apprehended—in rare cases only does a mass of facts passing through the brain generate spontaneously the co-ordinating hypothesis. We incline, as I say, to theorise over special things, which our minds then unconsciously select for observation. It is a sign of a great mind to inquire into little things. Darwin possessed the power to such a degree that he went on many fruitless searches. He himself remarks that we are blind to what we have not learned to look for, and illustrates from his own and Sedgwick's experience in Cwm Idwal before the Glacial Theory, when they observed literally everything except what is now as plain in its lesson as a burnt-out house.

Of course, fruitless theories and investigations are not useless—they narrow the field of inquiry.

I doubt not that economics will have a salutary influence on accountancy. But what I am much more concerned with is, what is accountancy going to do for economics ? The keys to many doors are in its hands, and there alone.

The Capital Charge against Accountancy.

I make this serious indictment of accountants.

Scientific accountancy has now been developing for some 50 years, but I cannot trace that it has yet made a single substantial contribution to economic science over its own field of the analysis of the results of industry, although it has practically a monopoly grip of the required data. I am not referring so much to costing details, which are hardly uniform yet, as to the ordinary trading results, Balance Sheets and their details.

But a word or two upon costing. The extension of scientific costing methods is becoming daily more widespread, and each business is accumulating for itself a vast amount of valuable matter. I do not see any prospect at the moment of any general principles or deductions being arrived at by bringing all these results together, and seeing what lessons they teach. The only effort in this direction of which I am aware is the very praiseworthy one made by Mr.

Pearson in a paper before the Royal Statistical Society last year, in which he tabulated some valuable hypothetical figures.

A Costing Induction.

He refers to the importance of being able to estimate, within a reasonable degree of accuracy, what will be the total running charges corresponding to any assumed rate of expenditure in direct wages, and states he has "formed the conclusion, from 20 years' careful examination of information collected at three monthly intervals, that a parabolic relationship exists normally between running charges and direct wages—that is, the total running charges vary as the square root of the direct wages, with the equation as $y=Cx$. For general conditions it would be more correct to express the equation as $y_n Cx$, the value of n being in the neighborhood of $\frac{1}{2}$.

"This is a factor of first-rate importance, and provides a simple and continuous method of examining running charges, the most troublesome and dangerous of the four groups of costs."

Now this is a generalization of great interest, but it is given from experience without actual data.

On hypothetical data Mr. Pearson stated: "The great range of fluctuation in the percentage of profit on net output deserves the closest attention. It is generally recognized that cost per article increases as output diminishes, but few people appreciate how small a reduction in output will turn profits into losses. The tables indicate that this takes place within 20 per cent. below normal output, and below that again the losses rapidly increase in amount."

Precise Data Necessary in Science.

Of course, however valuable an impression of this kind, which arises spontaneously from experience, may be as an inspired guess, it has nothing like the same value in a scientific sense as the actual tabulation of a number of cases, and the indication that they have a model relation to each other. Such a tabulation, and even a "tentative law" derived therefrom, would enable us to determine the position of any particular case according to whether it was operating at a half capacity or a full normal capacity, or beyond normal capacity, to test its ratios of oncost and various kinds of unit efficiency by general experience. Perhaps, however, I am not thinking so much of the practical utilization of the general results in business. Successful business men may prefer to keep them to themselves, though, if we look at the national interests as a whole, and not at individual profit making, this is a poor argument. But I am considering a more exact statement in the economic sphere of what is evolved by working under successive conditions of increasing, constant and decreasing returns, respectively.

Now you will want my ideas on two aspects. First, what are these precious truths that accountancy may bring forth? and sec-

only, who is going to do the work, having due regard to the position of confidentiality in which the accountant stands ?

The first is a big subject, and I must content myself with a few examples simply stated.

What are Profits due to ?

All students of the subject and even casual readers, are now familiar with the conception of the "marginal business" which has been derived by deductive reasoning from the generalized conception of the principle of rent, and marginal utility. We know, in the abstract, that price is the figure at which the marginal business can just get a bare return upon the factors of production without going out of production. Just as it also tends to be in equilibrium the cost of the last unit of production of other businesses, but I am not going to labour all the consequences of this theory. What I want to point is that it has received little or no practical verification and examination in practice, though one may feel instinctively that it is true. The verification of it, and the discovery of its consequences in practice, rest entirely in the realm of accountancy. Suppose you took all the concerns that are on the margin, i. e., are making an economic rent on their employed capital, but no profits above that, and then you take all those in the same trade or industry that are making something more than this rent—i. e., the intra-marginal concerns. Their results could be reduced to a unit cost of production if necessary. In some you would find the amount charged for economic return upon capital higher than in others, possibly because the factory was erected in a comparatively disadvantageous position, and the costs of erection were unduly high, or the lay-out was not good. Others will be influenced by a disadvantageous position, as shown by transport charges in the Revenue Account; others by disadvantages in distribution; others by excessive salaries, less efficient machinery, and so on. None of us have the slightest knowledge as to how the differentials of profit for profitable concerns, as compared with marginal concerns, are made up and classified, and to which elements of advantage most profits are due. Only concerted accountancy could answer these questions. Upon the answer might depend much for the future of industry.

A better acquaintance with those relative disadvantages which all form part of the stream of production induced by a given price, would be of immense help in the extension of industry. Obviously, the studious avoidance of any particular mistakes would have the same effect upon price as a sudden and magic improvement in the fertility of the worst and medium lands under cultivation. That is to say, there would be a tendency to lesson aggregate rentals or economic profits or marginal profits, and at the same time all prices would be lowered. Can any of us at present hazard a guess as to how many marginal businesses there are in a trade, and as to how

far profits over and above economic interest arise through disadvantages in situation, excessive capital expenditure, excessive distribution costs, and inferior organization respectively ?

Accountancy Oblivious of its Trusteeship.

This is only one of the immense additions that might be made in applied economics, if accountants, as the trustees of valuable economic data, would free themselves from their present doubtless inadvertently "dog-in-the-manger" position. They have the figures ; other people cannot use them, and if accountants will not, then we get nothing ; economics continues its abstract deductions, and business blunders on by individual instinct.

Relation of Profits to Capital.

Again, the relation between profits and capital is very little known, except by general impression, for different businesses. We have all the theory about the return of interest required to cover extra risks, special amortisation, etc., but there is next to no real verification (of a scientific order) from the facts of life. Nor do we know what share of the total reward belongs to the different economic elements of risk, direction, management, and so on. We do not know how far the elements of friction, or the keeping of a trade within the secrecy of private hands in a locality, may avail to "dyke up," as it were, a special private trade away from the equalizing forces of competition. We do not know much about the influence of rising and falling money values upon the rates of profit upon capital, or upon the absolute amount of profit. In all of these matters the large mass of the facts is denied to economists, but they pass through the hands of accountants. This valuable material is continually going through the hands of highly intelligent men who are analysing and criticising it from their own point of view in regard to its textual accuracy, to its correctness in principle, to its conformity to standard in regard to law and accountancy, but who have never any thought as to what light it might throw either upon the economic generalizations already made, or what it may contribute to general knowledge. The only considerable body of facts of which I am aware in this country relating to the results of businesses and aggregated on a sufficiently wide scale to justify any inference, is the Economist's quarterly summary of industrial and trading results. Here a gallant struggle is made, working on such intractable material as the final published Balance Sheets, to reduce the results to comparable form to aggregate them and extract the facts of general application. The series is extremely valuable, but every accountant will appreciate that it is a task undertaken in the face of the greatest difficulties, and can only have a limited degree of accuracy. Moreover, it fails to sample the great mass of smaller businesses in each class, and the businesses under private management.

Profits Related to Output and Price.

I remember that Mr. Joseph Kidger, of Oldham, performed annually a very interesting and useful service in aggregating the results of 100 spinning companies, and showing therefrom the trend of profits and dividends. The series extended for a period of over 30 years. If this is possible in such a case, what might not be done by concerted effort? You will appreciate that to obtain any reliable information underlying the great mass of facts about profits and capital, it is necessary to see that the profits are defined on similar lines and treated in a reasonably identical fashion for depreciation and other charges before any useful work can be done. When I was working upon the problem of the relation between changes in trade volumes and changes in prices, with corresponding changes in profits, for the Royal Statistical Society, I emphasized the fact that we had to secure uniformity of definition and treatment for all the cases dealt with over a wide area at any *point* of time, or similar uniformity for the cases in a narrower area for a longer period of time. Neither of these conditions can be satisfied by the information available to any individual business. It is only in the mass that individual idiosyncrasies are cancelled out. What we are after is a composite photograph, so to speak, with real underlying characteristics, and a true statistical analysis should aim at eliminating short period fluctuations due to local and temporary causes, and bringing out the broad secular influences at work. When it has done this, we may, perhaps, focus attention upon temporary and local deviations, together with temporary and local disturbing causes, and so obtain a second valuable series of deductions by Mill's method of residues. Just as the scientist prepares his material and makes it, if you like, "chemically" clean before he begins to work on it, so the crude figures have to be prepared and standardized for use. That can only be done by the concerted action of accountants.

The National Capital.

Then again, in estimating the national capital, a subject now of such great importance, one of the most vital factors relates to the capitalization of business profits. The method of capitalization by reference to Stock Exchange values will, for reasons which I have stated elsewhere, appeal to you as having distinct limitations, but the weakest feature of the whole estimate is that relating to businesses in private hands. Here we are still content to treat an estimated proportion of the total profits as arising from capital, and to capitalize that proportion. It only requires one concerted action by accountants, with a well placed sample, to settle this question, and to establish within close limits of error the correct amount of capital in relation to profits of such businesses.

The Preservation of Secrecy

The problems of confidentiality, combined with comprehensive-ness, have been very satisfactorily settled by combined action on

many occasions before the Board of Referees for excess profits duty. Here you had a whole class of trade whose interests were to act together, and to prove their case in its generalities, and not in its particular points for each business. These businesses, naturally, could not, and would not, reveal any of their affairs to each other, but they were always ready to nominate an accountant who would reduce their data to uniformity and tabulate them in such a way that individual identity could not be discerned. From these tabulations emerged those general results and particulars about capital and profits, risks provided for and risks contingent, and many other similar features from which the referees were able to see the broad economic conditions of each class of trade and make their rulings accordingly.

It is by some such method as this that the concerted action to which I have referred would come into operation.

An Appeal for Research.

I can hear the exclamation come from many of you that this is a Utopian and preposterous scheme ; that accountants are in business for a living ; that they have hard work enough to get through the day's toil as it is ; that they wish to leave the whole subject when they come to their leisure ; and that they could neither afford the time nor the money to undertake abstract investigations in the middle of their daily task. I will grant all this, and at the same time say that I hope that out of the rising generation of accountants there will be at least 1 per cent. who have the real itch for knowledge, and whom the microbe of curiosity will give no rest. If this small number are the ones who conceive the ideas, formulate the plans, and act as the general dynamic, and then we have another 5 per cent. to 10 per cent. who are willing to give some time to following the lead of these. Just as the scientist prepares his material and makes it, if you like, who are willing to give some time to following the lead of these pioneers by answering questions, and, so to speak, doing as they are told, you will have a body of workers who will achieve all that I have in mind. Joined up in local study circles or in correspondence, groups of enthusiasts willing to give a little of their leisure time to the quest for truth and the advance of knowledge would, in the space of ten years, raise the economics of business almost to the status of an exact science.

I look anxiously at the promise of your recruits. In each examination there have been several papers of outstanding excellence, showing a real capacity for economic thought, but the majority have had a bare textbook knowledge which could not get away from the particular presentation there studied—the difference between a routine repetition of a Euclidian proposition and the capacity to do the riders upon it. It is clear, however, that there will soon be in the profession a large body of economic thought which, even if initiative

is rare, will respond with readiness to impulse and initiative in others and put itself at the service of the common good.

I fully realize that the great majority of those in your Society over, say, 40 years of age will scoff at my suggestions as "highbrow," Utopian and unpractical for a hard business world, but I am content to make my appeal to the rising generation and to pray for a co-operation between accountancy and economics in the future that will be fraught with the highest advantages to both. *Venit nox, quando nemo potest operari.*

From The Accountants' Journal.

TREATMENT OF COSTS DURING PERIODS OF VARYING VOLUMES OF PRODUCTION. *

By C. B. Williams.

THERE is considerable discussion at the present time about what should really be considered cost of manufacture. This question would hardly have been raised if the volume of production from year to year were constant. But during the last few years this volume has fluctuated to an extent such as to make it apparent that the volume of production in relation to the capacity of the plant has quite as much to do with determining what expenditures are to be included with the cost as has the amount of these expenditures themselves.

In order to obtain an intelligent answer to our question it will be necessary to discuss the elements of cost and also to determine what constitutes a normal volume of production. It is my belief that manufacturing cost should not be affected by variations in the volume of production but that the true cost is that cost which would be obtained under a normal volume of production.

In the first place, let us ask what is normal production. Probably every manufacturer will have a different idea as to what his normal is and therefore the question might naturally be asked: If you cannot agree as to what constitutes normal production, how can you agree as to what manufacturing cost is during periods of normal production? Finding the answer is not so difficult if it be kept in mind that the determining factor in costs, aside from material, is time. Probably it would be better to say normal operation instead of normal production.

To determine the normal hours of operation of a producing unit it is necessary to deduct from the total operating hours an allowance

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sufficient to cover the time required for repairs, absence of the operator and other unavoidable interruptions. The total operating hours would be those established by the company's policy. The normal thus established should be changed as experience shows the allowances to be incorrect. If we err somewhat in establishing this basis we shall nevertheless be better off than if we make no attempt to solve the problem.

The per cent. of capacity which might be considered normal would be different for different industries whether expressed in hours or other units. Probably between 75 per cent. and 85 per cent. might be considered normal for many industries. In many of the recent discussions and in a recent publication of the fabricated production department of the Chamber of Commerce of the United States, 80 per cent. has been suggested as a fair basis. This means that 20 per cent. of the total operating time is to be allowed for unavoidable delays such as repairs, absence of the operator, shortage of material, etc.

Let us assume that 80 per cent. of capacity in some specific case is normal production so that we may have some definite starting point. The next question is: What is manufacturing cost? Everyone will agree that the cost of material and of productive labor is a part of manufacturing cost. In any well regulated plant, these two items will vary directly with the volume of production. In some cases the direct labor may not decrease as rapidly as the volume of production for the reason that certain employees are retained because of their value to the organization. But in such instances their remuneration ceases to be direct labor and becomes expense of another character.

In order to discuss the treatment of cost during periods of varying volumes of production, it is only necessary to discuss the treatment of expenditures which are made for purposes other than direct labor and material. It is when we discuss the various items of manufacturing expense that we begin to develop differences of opinion. In the last analysis there are only two classes of expense, manufacturing or producing expenses and selling expenses. In practice we create a third group, administrative expenses. Frequently we find it difficult to determine to which of these groups certain expenses belong.

It is not the purpose of this paper to deal with the classification of expenses further than briefly to define manufacturing expense. I believe a simple definition, and one on which most of us agree, would be that manufacturing expenses are those expenses which could properly be included with inventory costs. As an illustration I might mention shipping expense, which frequently is classed with manufacturing expenses, but we should not be willing to distribute it so as to include part of it with the inventory. This

will be readily recognized as an expenditure which is largely under the control of the factory management, but the accountant would not be willing to consider it as part of inventory cost.

There is a very important but little thought-of division which should be made in some of the items of manufacturing expense. That is to separate such expense between producing expense and idle expense. I think it is safe to say that until very recently the great majority of manufacturers considered every shop expenditure as an element of manufacturing cost and not a few included all office expenses as well. We have been accustomed to wait until the close of the month or the close of the accounting period, and then to sum up all of our expenditures for material and productive labor and call them direct cost; also to sum up all our expenditures for so-called overhead purposes and allocate these expenditures to the cost of goods produced in some relation to productive labor. From a mere bookkeeping standpoint this might be permissible; but for the purpose of furnishing usable information it would be better to recognize the cost of idleness as separate from the cost of manufacture.

In order to make it easier to abandon the plan or the method to which business has been largely accustomed, we might consider some of the disadvantages of computing costs from the actual current expenditures in periods when production is below or above the normal.

First let us consider the effect on the sales department. If the business happens to be one in which sales prices are based on the costs, the inclusion of all expenditures during a period when production is only 25 per cent. of normal will mean an excessively high cost. What is the sales department to do when confronted with such a condition? Business is poor—what little is offered is being sought by everyone in that line. The result of competition is a lowering of prices. The more the manufacturer wants the business, the lower he will make his price. But the sales department is confronted with a condition illustrated by exhibit B. The costs have been computed on the basis of actual production and actual expense and the cost which formerly was \$9.80 is now \$18.80, and an article which formerly sold at \$11.32 and yielded a profit of 10 per cent. now costs \$18.80 to make. Is the sales department to consider the present cost of \$18.80, and bid \$21.71 on something that formerly sold for \$11.32? Certainly you will say that no sane sales manager would follow this procedure. Such quotations would not only not obtain any business but would make the sales policy of the company look ridiculous in the eyes of its customers. If the sales manager is not to use prices furnished him by the cost department, what course is open to him? Only one, and that is to ignore the cost furnished by the cost department and bid at some figure which he

thinks may obtain the business. If the normal price is used and business is obtained, the output of the plant will be increased and the cost department, because of this very fact will show a lower cost than the one furnished the sales department. If the volume increases sufficiently, the cost will be lowered to the former figure. This will justify the action of the sales manager in using his own judgment about the cost and will discredit the cost department for having furnished a cost at which business could not have been obtained.

On the other hand, let us assume that for a short period the plant has been working a night shift and has thus doubled its production, although night production may be neither desirable nor practical for this particular industry. The cost which was \$9.80 under normal conditions is now \$8.30. By making the same allowance for selling and administrative expenses and for profit, the selling price is fixed at \$9.59. Should the sales department now offer to take business on the basis of a \$9.59 price, knowing that the factory cost alone in normal times is \$9.80? If this price is quoted and business recedes to normal, a loss of 21 cents on each article will be shown even before providing for selling and administrative expenses.

Cost accounting must be practical. It is right to have theories, but they should stand the test of practice. No one expects his customers to pay a higher price for goods when business is poor simply because he needs a higher price in order to operate at a profit.

When business is poor the customer naturally expects lower prices and the manufacturer naturally expects to quote lower prices in order to stimulate business. On the other hand, when business is good the customer expects to pay higher prices and the manufacturer expects to obtain higher prices. But, in the illustrations we have used with prices based on fluctuating costs, the opposite would be true. Accounting should certainly be an aid to business management, and theories which interfere with the usefulness of accounting results and will not allow us to meet business conditions can not be maintained very long.

Next let us consider the effect on production. The factory management is expected to produce goods at a price at which they can be sold, but if all the costs are to be charged to part-time production the factory will be accused of incurring costs that are higher than selling prices. Therefore, instead of accepting such business as might be obtained which would at least absorb part of the overhead, the factory must be closed because a sufficient volume cannot be secured to absorb all of the overhead. You will say that the factory management would not follow this policy, but would produce whatever it had orders for, so long as there was a chance of conditions improving.

Somehow the practical factory man knows that costs do not become higher on one machine when another machine is idle. Neither does he believe that costs become lower on a certain machine because additional machines are placed in operation. To his mind there is no connection between the output of one machine and that of another and if he can keep the one machine operating at normal capacity he naturally expects the cost of the product to remain the same, regardless of the varying volume of production of other machines.

Probably factory men would have more respect for their cost accountants if the cost statements agreed with what factory men know to be the true condition. When cases such as this occur, the manager naturally ignores the figures furnished by the cost department and uses his judgment instead, and the value of the accountant is not raised in the estimation of the manager when he has to use his judgment instead of the figures furnished him.

Next let us consider the effect on the balance-sheet. If all shop expenditure is to be considered a part of the manufacturing cost, it likewise enters into the valuation of the inventory. In many lines of business there is no market value for a product other than that established by the manufacturer himself. Therefore he must value his inventory at cost prices. If the cost as shown be considerably higher because the volume of production is lower, the inventory is valued at higher than sales prices and is overstated in the balance-sheet. Likewise a false showing will be reflected in the profit-and-loss statement. Exhibit C. will make this clear. I have assumed that there is the same quantity of inventory at the end of the period as at the beginning. The illustration shows the difference in inventory values due to the increase in the overhead per unit during the period.

The inventory at the beginning of the period is valued at costs obtained for the previous year during which the volume of production was normal. The inventory at the end of the period is valued at the cost obtained for the current year during which the volume of production has been only 25 per cent. of normal. The result is that the book value of the same quantities of inventory at the beginning and at the end of the year has increased from \$26,000.00 to \$44,000.00. This increase is all in the shop expense and is the result of increasing the burden rate from \$0.50 to \$1.62½ an hour as shown by exhibit A.

According to one recognized accounting theory, all shop expenditures must be included in the cost of manufacture, but according to another equally well recognized accounting theory the inventories must be stated at the lowest possible prices and certainly at less than sales prices. But in the example which I have given both of these theories cannot be followed. Which one shall we abandon?

Most likely we shall arbitrarily reduce the inventory valuation from \$44,000.00 to \$26,000.00, making it agree with the costs obtained during a normal volume of production and thereby abandoning the theory which leads us to consider all manufacturing expenditures as a part of the cost of production.

Under the old method, in addition to having an incorrect inventory at the end of that period, all the monthly statements have been incorrect. A supposed profit which was accumulating from month to month must be reduced at the end of the year because the inventory valuation is then found to be fictitious. It would not require any great stretch of the imagination to picture a case in which the monthly statements show that a profit was being earned throughout the year, but that at the end of the year it would be shown that a loss had been incurred, the error being due to incorrectly stating the inventory in the monthly statements.

Of course, the opposite result would be obtained if the volume of production were above normal instead of below normal. In this case I think it would be perfectly proper to value inventory at normal cost rather than at a reduced cost which might have been obtained during an unusually favorable period of production. I anticipate the objection that inventories stated at normal cost rather than at the reduced cost due to abnormal production, would result in overtaking the assets and the profits for the period. My belief is that this is not the case but that, on the contrary, there would be carried into profit and loss an earning resulting from abnormal conditions. If this is not done and if business resumes its normal volume during the succeeding period, we shall then be charging the sales of that period with material carried in inventory at prices lower than they should be carried, and we shall be overstating the profits in a period when normal results should be shown.

Let us consider one more effect of keeping costs according to our old method. A cost department which is worthy of the name will furnish statements to the management setting forth the various conditions of the business in a way such as will direct attention to unnecessary expenditures. These statements will show the facts in terms of some unit of production and frequently will compare costs of one period with those of another. If all expenditures are to be included in costs when production is low, the statements which formerly had some value to executives will now be valueless because a comparison of results in periods of sub-normal production with results obtained in periods of full production will simply show higher costs in the sub-normal period accompanied by the obvious, but meaningless, explanation that the costs are higher because production is lower.

If we still insist that all expenditure is properly a cost of production, let us ask to what is expenditure chargeable when the plant

is idle and when there is no production. During a period such as this there are expenditures for watchmen, repairs, heating and other items necessary to care for the property. In addition the usual charge for taxes and insurance goes on and the plant depreciates. If there is no production, there seems to be only one way to dispose of these expenditures and that is to charge them to profit and loss, with the explanation that this is a loss incurred because the plant was idle.

Under these conditions let us assume that a shop with twenty machines now obtains an order which will enable it to operate one machine. Is all expenditure now to be considered as cost of the production which is obtained from the operation of one machine? If not, then to what shall 19-20ths of the more or less fixed expenditure be charged? If we charged the expenditure to profit and loss when there was no production, why not charge 19-20ths of this expenditure to profit and loss when production is only 1-20th of capacity? If it is necessary to start the power plant to operate this one machine, are we to charge all of the power-plant expense to production because one machine is operating or are we to charge 19-20ths of it to profit and loss because nineteen of the machines are idle?

Some may say that the obtaining of one order made it necessary to start the power plant and that therefore the entire cost should be charged to that order. If we do this and show the manager that a big loss was incurred because this order was taken, we shall doubtless be told that something is wrong with our method of calculating and that the business must start up gradually and cannot by any line of reasoning be expected to remain idle until orders are obtained sufficient to operate all the machines. If the plant cannot be expected to remain idle but must be operated because of the general necessities of the business, why are 19-20th of the cost of the power plant not a proper charge to profit and loss rather than to the cost of the one order?

I have in mind an actual experience which occurred fifteen years ago. A large factory making wire products closed down all but one department. The product of this small department had been costing about \$32.00 a ton. Under the plan of charging all expenditures to costs, the entire expense of the power department, as well as other departments which contributed somewhat to the department which was operating, was charged to the output of this department, resulting in a cost of about \$1,600.00 a ton for its product.

When the yearly figures were made up, the item for which there was a normal demand throughout the year showed a loss because it had been charged with the expense of the idle departments, while the items for which there was no demand during a part of the year showed a satisfactory profit. The ridiculousness of such a

showing was apparent to all. It was evident that the method being used was incorrect and it was likewise the consensus of opinion that the output of this department should not cost any more per unit than it had in former months. Unfortunately this method was then in such general use that we were unable to convince those in authority that a different plan should be adopted.

Suppose a company had two similar plants, but in different cities, and that one plant was operated to normal capacity, while the other plant was idle. Would anyone suggest charging the expense of the idle plant to the production cost of the one that was operating? Would the principle change if a new building were erected and the equipment of both plants were moved into it and one-half of the equipment remained idle?

Possibly we are now willing to abandon our former method of costing and adopt a method based on normal production, or, in other words, a normal cost.

For the purposes of this discussion we have already assumed that normal production was to be fixed at 80 per cent. of maximum capacity. We must now define normal cost. Suppose we say that normal cost is the cost that would obtain when production was at 80 per cent. of maximum capacity. If production is only 20 per cent. of the capacity or 25 per cent. of normal, our problem will be to separate the expenditures so as to determine what is to be considered as cost of production and what is to be considered under some other head.

My proposal is that shop expenditures be divided into two classes. One class will be the cost of production. The other class will be the cost of keeping idle equipment and organization in condition to produce. When the plant is operating to normal capacity all expenditures will be of the first class, i. e., cost of production. No machines are idle except for reasons included in our 20 per cent. allowance. If any machines are idle for other reasons the expense belongs to the second class, i. e., cost of keeping idle equipment and organization in condition to produce.

Exhibit A illustrates the methods of obtaining the overhead rates. Exhibit B shows the amount of idle expense and of earnings from overtime. Shop burden divides into two main classes, the first and largest being expenses which are constant, regardless of the volume of production. These expenses include the taxes, insurance, depreciation watchmen, superintendents and other expenses of keeping the organization together and the plant in operating condition.

The second class consists of expenses which vary more or less with the volume of production and have been called "variable" in the example given. In this illustration the constant expense is \$30,000.00 under all three conditions. The variable expense is \$10,000.00 under normal conditions or conditions of full operation. It is

\$2,500.00 when the plant is operating to only 25 per cent. of normal, and \$20,000.00 when a night turn is being operated and production is twice the normal.

It will be seen that the overhead rate under normal conditions is 50 cents an hour because the total expense is \$40,000.00 and the total operating hours 80,000. With the plant operating to only 25 per cent. of normal the total expense is \$32,500.00 and the operating hours 20,000, thus giving an overhead rate of \$1.62½ an hour. With the plant operating a night shift, the expense is \$50,000.00 and the operating hours 160,000, thus giving an overhead rate of 31¼ cents an hour.

You will note that simply because the volume of production varies the overhead rate has changed from 50 cents to \$1.62½ in one case, and to 31¼ cents in another case. Is it logical to assume that such a change should be borne by that part of the product for which the demand continues normal when the real fault is in the fluctuation of the demand for some other item?

At this point it might be well to explain that normal rates do not mean fixed rates. For example, if the rates of pay for common labor should be lowered, this would lower the normal rate to the extent that common labor was a part of the expense. If a change should be made in manufacturing methods which would necessitate more common labor, this would raise the normal rate.

Exhibit B illustrates costs obtained under three different conditions. In each case the material cost is \$1.00 and the labor cost for eight hours is \$4.80. The burden cost will be calculated on eight hours of operation in each case. Under normal conditions, the rate will be 50 cents an hour and the amount of burden \$4.00. When production is 25 per cent. of normal, the rate will be \$1.62½ and the amount of burden \$13.00. When production is twice the normal, the rate will be 31¼ cents and the amount of burden \$2.50. Our total unit costs then are \$9.80, \$18.80 and \$8.30 respectively.

If the production for each of these periods is charged to cost of sales at these figures, the entire expense of the plant will be taken up; and naturally a loss will be shown in the second period because of a lack of production. An excessive profit will be shown in the third period because the production was twice the normal. Both these results are misleading. Would it not be better in the case of curtailed production to say that the normal operating hours were 80,000—that the actual time of operation was only 20,000 hours—that there were 60,000 hours of idle time during which the constant expense went on as usual at a cost of 37½ cents an hour, resulting in a loss of \$22,500.00, which was due to idleness rather than to excessive cost of manufacture?

In the case of abnormal production, instead of operating 80,000 hours the plant operated 160,000. The constant expense during this

period did not increase. What happened was that, because of the unusual demand, we worked our equipment and organization beyond what was designed for and that these 80,000 hours of extra operation resulted in an additional profit of $37\frac{1}{2}$ cents an hour or \$30,000.00

If the manufacturing costs for the period are given the benefit of this \$30,000.00, it will be misleading, because figures will be established which probably will never be duplicated and therefore cannot be used by the sales department or by any other department. Would it not be better to credit this \$30,000.00 directly to profit and loss, with the explanation that it was the result of operating beyond normal capacity?

Let us consider some of the advantages of following the new method as opposed to the disadvantages of the old. In considering the sales policy, the normal-cost method furnishes a correct basis for sales prices. The sales department is informed that in cases of normal production the cost of the output is a certain figure. It can then work intelligently with full confidence that it is being properly informed by the cost department and that whatever business is obtained can be produced at a profit. Salesmen can be sent out with instructions to take all the business they can obtain at this price, whether little or much. In addition to knowing the profit on the sales which are made, the sales department will constantly have before it a statement of the loss that is being sustained because sufficient sales are not being made.

In considering the production policy, the factory manager will understand that a loss is being incurred while the factory is idle, and that whatever he is allowed to produce will show a satisfactory cost figure. At the same time it will reduce the loss which is being sustained through lack of operation. If the factory is idle, every order should be received with rejoicing and not, as heretofore, with the knowledge that when it is produced it will show a cost greatly in excess of the sales price. There will be an incentive to study the idle departments to determine any use that can be made of them or whether it is profitable to keep them at all or not. A department which was charged with idle expense, year after year, might result in more loss than profit. If the company is anxious to hold its organization together, it can determine the point at which it will suffer no greater loss by keeping its employees at work than by laying them off. For this purpose let us rearrange our cost illustration as shown by exhibit D. The burden of \$4.00 is divided in accordance with the rates shown on exhibit A. The variable burden at $12\frac{1}{2}$ cents an hour is \$1.00 and the constant burden at $37\frac{1}{2}$ cents an hour is \$3.00.

It is evident from this that the cost, \$9.80, is composed of \$3.00 which is constant and cannot be eliminated by laying off employees and \$6.80 which is variable and can be eliminated by laying off em-

ployees. Therefore, anything that is obtained in excess of \$6.80 will reduce the loss which would otherwise be incurred through idleness.

If a large stock of raw material were on hand, and this could be disposed of as finished product at \$6.80 a unit, the plant could be operated at no more loss than if it were idle. The inventory could be turned into cash and the organization could be maintained

Another of the advantages of establishing costs on the basis of normal production is that we are able to measure the cost of idleness. The expense which cannot be allocated to costs because it is due to a lack of operation is certainly the cost of not doing business or, in other words, the cost of idleness. This is a most important fact and should be watched constantly by those responsible for the outcome of the business. It might be that the cost of idleness in a given period is \$50,000.00, but, by securing a certain volume of business at cost, some of the overhead could be absorbed and the loss correspondingly reduced. This would not appear in the profit-and-loss statement as a profit but it would appear as a reduction of a loss.

I have heard some accountants express their condemnation of so-called normal costs with a good deal of feeling. It has been contended that it is a dangerous policy and that the purpose of a cost system is to determine the cost. We must keep in mind that all expenditures must eventually reach the debit side of the profit-and-loss account. The only choice is as to the channel through which the charge is to be made. Shall it all be called "cost of sales" whether the sales be big or little, or shall part of it be called "cost of idleness"? In either case it is cost. Which will convey the most information to the executive?

A

Determination of Shop Burden Rates.

	Normal		25% of Normal		200% of Normal	
Shop expense	cost per hr.					
Constant	\$30,000.00	.37½	\$30,000.00	1.50	\$30,000.00	.18¾
Variable	\$10,000.00	.12½	\$2,500.00	.12½	\$20,000.00	.12½
Total exp.	40,000.00	.50	32,500.00	1.62½	50,000.00	.31¼
Total hours	80,000		20,000		160,000	

COSTS DURING VARYING PRODUCTION

B

Illustrations of Costs and Sales Prices Under Different Conditions

	Normal	25% of Normal	200% of Normal
Material	1.00	1.00	1.00
Labor 8 hours	4.80	4.80	4.80
Burden 8 hours at .50	4.00	at 1.62½ 13.00	at .31¼ 2.50
Total unit cost	9.80	18.80	8.30
Selling and adm. 5%	.49	.94	.42
	10.29	19.74	8.72
Profit 10%	1.03	1.97	.87
	11.32	21.71	9.59
Total operating hrs.	80,000	20,000	160,000
	Idle Time		Overtime
	60,000 hrs. @ 37½		80,000 hrs. @ 37½
	\$22,500.00		\$30,000.00

C

Comparison of Inventories, Quantities Being the Same in all Three Examples

	Normal	25% of Normal	200% of Normal
Raw material	\$ 5,000.00	\$ 5,000.00	\$ 5,000.00
Work in process			
Material	6,000.00	6,000.00	6,000.00
Labor	6,000.00	6,000.00	6,000.00
Shop expense			
16,000 hrs. .50	8,000.00	1.62½ 26,000.00	.31¼ 5,000.00
	20,000.00	38,000.00	17,000.00
Finished stock	1,000.00	1,000.00	1,000.00
	26,000.00	44,000.00	23,000.00

D

Division of Cost Between Variable and Constant

Material	1.00
Labor 8 hours	4.80
Variable burden 8 hours .12½	1.00
	6.80
Constant burden 8 hours .37½	3.00
	9.80

(From The Journal of Accountancy)

EXAMPLES OF PROFIT-SHARING AND CO-PARTNERSHIP BY LIMITED COMPANIES.

BY HERBERT W. JORDON.

A lecture delivered before the Secretaries' Association.

Y our Council has paid me the honour of inviting me to address you on the subject of profit-sharing and co-partnership by limited companies. The subject has attracted considerable attention of late, largely because profit-sharing—and more particularly co-partnership—schemes are advocated by many as a remedy for the prevailing industrial unrest. Many schemes, some of which are more or less of a novel character, have recently been formulated and put into operation by old-established and prosperous undertakings, doubtless animated by the desire to allay possible unrest. Several of these are, on the whole, admirable schemes, if I may be permitted to express my opinion thereon.

From a slightly different standpoint must be regarded the adoption of profit-sharing schemes by a number of companies lately registered. These also appear to be good, as well as attractive. No doubt the object of the promoters of these companies in including such schemes has been twofold—namely, (a) to show that loyal service will not only be expected of the prospective employees but will be recognised in some material fashion, and thus as far as possible to ensure their willing co-operation, and (b) to allay apprehension of labor troubles in the minds of prospective timid applicants for shares, and to inspire them with confident anticipation of harmonious working relations between the employees and the directors and management. These schemes are mostly of such recent inauguration that no reports as to their success or failure can be expected for some while, but they will nevertheless be awaited with interest.

It may, however, be observed in passing that a profit-sharing scheme will not of itself ensure goodwill between employer and employee, and that unless the scheme is administered in a magnanimous spirit it may even prove a source of unrest.

The terms Profit-sharing and Co-partnership, it need hardly be observed, imply different ideas and aims. A company that confines itself to the distribution of a portion of its profit amongst its employees and leaves the thriftless section of them to spend all they receive beyond their regular wages extravagantly and in making useless purchases—to their own injury, and incidentally to the detriment of the exchange—does nothing to uplift their status commercially or to foster a sense of responsibility. But if the employees are invited to invest a proportion or the whole of the profits to which they are

entitled in the funds of the company, and this invitation is responded to, they become co-partners with their employers and their interests are identical. As year by year goes by their shareholders increase, and they may in time become the possessors of considerable capital, which, in later years or at death, may be realized and possibly occasion great benefit.

Though comparatively very few companies have in the past admitted their employees as co-partners, a larger proportion of recent companies have done so, and some have afforded employees an opportunity of acquiring shares on specially favorable terms. In many cases the scheme provides that a proportion or the whole of the profits due to employees shall be invested in the company's funds, without their having the option of taking cash. Experience proves that, as a general rule, such a provision works admirably in practice (although strongly condemned by trade unions), and in consequence it meets with the growing favor of employers. It may, however, be doubted whether in the long run it is not better to induce employees to practise thrift, rather than to make thrift compulsory.

Arguments in Favour of Profit-Sharing.

At this stage it may be well for me to summarise briefly the advantages and disadvantages of profit-sharing arrangements (with or without co-partnership). The advantages are :--

1. The fact that the interests of the employees are similar to those of their employers, which tends to induce harmonious relationship and smooth working ; each individual feels that it is to his interest to further the prosperity of the undertaking, and co-ordination between different departments is thus encouraged. If the amount received by employees as their proportion of the profits is invested by them in shares of the company, they become in a small way capitalists, and their status is raised above that of being merely servants, so that they are led to feel that they are in a measure employers or partners, who are working for themselves and others—though, it may be remarked in passing, whether capital should be regarded as employing labor, or labor as employing capital, is a debatable point.

2. Animated by such feelings as these, production will be increased, as employees will find it to their interest to eliminate wasteful methods and to intelligently co-operate with the management, and they may also be led to make valuable suggestions as to how the efficiency of the business can be improved. Thus not only may the income of the employees be increased, but where the hours of working are unduly long or the working conditions unfavorable, alleviation may be found possible, and many improvements may be effected without the increased output being impaired.

Arguments against Profit-Sharing.

The principle arguments against profit-sharing schemes are :—

1. The lack of confidence on the part of employees in employers generally, there being a lurking suspicion in the minds of the former that profit-sharing schemes may be so manipulated as to operate in favor of the employers exclusively and perhaps in the long run even to the disadvantage of the employees. It is felt that the "inside" knowledge of the employers and their wider experience enable them to gain an unfair advantage over their employees, and that any undertaking by them suggestive of benefit to the employees, especially if given voluntarily, should be scrutinized almost as closely as the pledges of politicians. Even the provisions of Acts of Parliament, some may recall, are occasionally interpreted by His Majesty's Judges to mean something very different from what the words convey according to their natural construction.

2. The employees may be stimulated to increase the output, and employers may in consequence tend to be more exacting, taking the production of those in profit-sharing establishments as the standard for employees in establishments where the workers are not pecuniarily interested in the result of their labor. Moreover, in times of trade depression, the higher output may be expected from each individual, thus causing over-production and dismissals on a large scale, or, alternately, the dismissal of those who fall below the new standard. But those who are retained could not, as long as the depression lasted, expect to receive more than the standard rate of pay, whatever efforts they might make to restore prosperity to the business.

3. Workers generally, it is sometimes asserted, do not desire a share in the profits, their chief concern being to secure adequate and regular wages ; and their remuneration ought not to be dependent on the success or failure of the business, which may be due to causes over which they have no control whatever.

4. Profit-sharing schemes do not generally (and more particularly those on co-partnership lines) commend themselves to trade unions principally for these reasons. It may be presumed that the prejudice which not unnaturally arose when, on an historic occasion, a profit-sharing system (combined with co-partnership) was adopted with success as a means of fighting a strike has not altogether died away. It is, however, pleasing to note that the opposition is much less marked than hitherto, and that quite recently several profit-sharing schemes have received trade union approval. The suggestion sometimes made, that the conditions generally in establishments where profit-sharing and co-partnership schemes are in operation, being superior to those obtaining in other establishments, the unions fear that the employees' loyalty to them may be thereby weakened, may be dismissed as ungenerous. The principal (and not unreasonable) objection, from the trade union standpoint, is the attempt sometimes

made to impose as part of the scheme conditions which, rightly or wrongly, are considered to jeopardise the principles by which trade unions are animated.

5. Employers and employees may be tempted to organize for the exploitation of the community. Where, for example, a company has a virtual monopoly of any class of goods, or in times such as the present when the demand exceeds the supply, both parties may take advantage of the situation, the employees demanding higher wages (plus a share of the profits), and the employers passing on the extra cost (with a margin on the safe side) to the consumer.

The foregoing is an attempt at a brief, impartial, statement of the pros and cons of the case, and necessarily omits much that could be said for and against. My purpose is neither to advocate nor to condemn any system, but merely to lay before you a few considerations that I suggest you, as secretaries, should ponder over, as any one of you may be invited by your board to formulate some scheme, or it may be some of you are contemplating laying schemes before your boards on your own initiative. Before concluding, I propose to describe some of the schemes now in operation, so that you may be able to form an opinion as to which kinds are best suited to the circumstances of your respective companies.

I have designedly set out the arguments against profit-sharing schemes at greater length than those in their favor—for the advantages at first sight seem so obvious and the principle underlying the idea is so excellent that the disadvantages might otherwise fail to receive due consideration. However, a few comments on the objections seem to be called for, seeing that if I were not to give some answers to them (in, I hope, a detached frame of mind) you would probably go away with the impression that systems of profit-sharing are, in my secret judgment, under condemnation.

The first objection—namely, that employees should not be placed in a position so that unscrupulous employers may gain an unfair advantage over them—is perfectly sound. Nor would employers of the highest integrity desire to be in such a position, for they would be the first to recognize the fallibility of human nature and be prepared at times to apply to themselves the admission of St. Paul in the familiar passage, "The good that I would I do not; but the evil which I would not, that I do." For my part—until the Millennium arrives and the honor of directors is unimpeachable—I can see no way of overcoming this objection, except by the adoption of some national scheme (on a voluntary basis) providing the requisite safeguards—but I must not digress by giving an outline of such a scheme as I would propose.

The second objection—namely, that employers would become more exacting when they have evidence that cannot be rebutted that their employees are capable of increasing the output if adequate

inducements are held out to them—does not appear to require serious consideration. Labor is strong enough in these days to see that it is not imposed on in this fashion, nor, it is submitted, need labor be oppressed by the fear that profit-sharing will lead to the dismissal of efficient employees or to the over-production, resulting in unemployment, for those who have studied economics express the conviction that increased production cannot fail to increase the volume of our commerce, and consequently lead to a greater demand for labor and more stable conditions.

The third objection—that workers prefer adequate and regular wages—is hardly a fair one, for no profit-sharing scheme could be of any avail unless the employees were paid at the recognized rates. And certainly any additional sum will not be unacceptable merely because it is liable to vary in amount and to be paid at irregular intervals.

The fourth objection has already been answered to a great extent. No doubt the aversion of trade unions to profit-sharing schemes would diminish (if not actually disappear) if some national scheme were adopted, particularly in view of the fact that members of Parliament and others who have the interest of labor at heart would be afforded an opportunity of expressing their views and pressing for whatever safeguards they might deem to be necessary.

As to the fifth objection, that there would be a danger of employers and employees exploiting the community, it is perhaps hardly necessary to point out that the community in the long run never fails to find means to protect itself against extortion on the part of combines of any sort (whether of masters or men or of both in collusion). It may be recalled that some 20 years ago manufacturers of metal bedsteads came to an agreement with their workmen that the rate of wages should be determined by the market price of the finished articles. As a result, the trade on the whole prospered immensely for a time—at the expense of the community, who found the price of the indispensable article steadily rising, until eventually the conspiracy was overcome by the reintroduction of wooden bedsteads, which caused the collapse of the "iron ring."

Specimen Schemes

I propose now to give short particulars of schemes already formulated, most of which are in operation. The plan most commonly adopted is to divide the profits remaining after the payment of a specified dividend between the shareholders and the employees. For example, half the sum remaining after the payment of a dividend of 6 per cent. might be distributed amongst the shareholders according to their rights, and the balance paid to the employees in accordance with a pre-determined scale. Or, after the payment of a dividend of 6 per cent., the balance might be distributed in the form of a dividend on capital and a dividend on the aggregate wages for the year. To

give a concrete example, in the case of a company having an issued capital of £50,000 and making a net profit of £8,000 per annum, the number of employees being 250 and taking annual wages to the extent of £40,000, the balance to be divided between the shareholders and the employees would be £5,000 ; half of this sum could be paid to the shareholders as an additional dividend at the rate of 5 per cent., and the remaining £2,500 could be taken by the employees, who would receive on an average £10 each. Or a dividend at the rate of 5 5-9ths per cent. could be paid on the sum of £90,000 (capital £50,000, wages £40,000), so that the shareholders would take £2,778 and the employees £2,222, or £8 17s. 9d. each. A dividend on wages is to the advantage of the employees where the capital invested in the business is small, as in the case of an agency or messenger service where little more than office accommodation is needed ; but the advantage is with the shareholders where the capital invested is heavy, as in the case of an electric supply company, where big outlay on plant and machinery would be necessary. Usually, the proportion of the profits to which the employees are entitled is distributed amongst them in proportion to their respective wages, but occasionally the time each individual has served the company is taken into consideration. Sometimes, however, the amount distributable amongst the employees is divided into a number of units, an errand-boy being allocated, say, one unit, a woman worker two units, a journeyman three units, a foreman five units, and a manager seven units, or the principle allocates units to his employees in various proportions, according to his assessment of their respective values to the business, taking into consideration their individual keenness, initiative, ability, and loyalty.

Schemes in Operation.

No doubt you would wish to have some details of specific schemes actually in operation, and so I will give particulars of a few typical cases.

J. T. & J. Taylor, Ltd.

After provision for depreciation and a return of 5 per cent. on capital, the balance is applied in paying a bonus to employees of as much per cent. on wages as is paid on capital beyond the initial 5 per cent. above stated.

This bonus is paid to every employee who has completed one year's service at time when the accounts are made up and dividend declared.

Employees over twenty-one who have five years or more continuous service with the firm and own shares equal to half a year's wages have double bonus.

The bonus is *not* given in cash, but in bonus shares of the company. (Now given in Exchequer Bonds or War Loan, except as to 5 per cent. which is payable in shares.)

The shares so allotted entitle the holder to *cash dividend* in the following year.

No voting rights are attached to the bonus shares.

The bonus shares can only be held by employees. An employee must have an holding equal to one year's salary before he can sell ; he may then dispose of any surplus above that.

Persons leaving the company's employ must sell within six months of so doing, but to prevent employees leaving simply to get hold of money, the company does not undertake to transfer until three months after employees have left.

The following example shows the benefits accruing to employees under the scheme :—

Company pays dividend of 5 per cent., employees get nothing.

Company pays dividend of 6 per cent., employees get 1 per cent.

Company pays dividend of 7 per cent., employees get 2 per cent.

Thus, if the company pays a dividend of 10 per cent., an employee of one year's service will receive 5 per cent. on his wages, paid in bonus shares, and an employee of five years or longer will receive 10 per cent. on his wages paid in bonus shares.

Lever Bros., Ltd.

Under this scheme co-partnership certificates are issued to employees of 22 and over who have been with the company continuously for four years or more each of whom undertakes that he will not waste time, labor, materials, or money in the discharge of his duties, but will loyally and faithfully further the interests of Lever Brothers Limited, its associated companies and his co-partners, to the best of his skill and ability.

The allocation of co-partnership certificates is made by trustees who are directors, and they are assisted by an advisory committee of twelve, representing the various grades of workers by whom they are elected.

The co-partnership certificates entitle the holder to interest at a rate 5 per cent. below the rate of dividend paid on the ordinary shares. Thus, if ordinary shares take 10 per cent. the co-partnership certificates take 5 per cent. on their face value. If the ordinary shares take 20 per cent., the co-partnership certificates take 15 per cent. On the other hand, if the ordinary shares only receive a dividend of 5 per cent., the co-partnership certificates receive nothing.

Interest on the co-partnership certificates is paid in A preferred ordinary shares of the company. If they are retained by the holder continuously, they are entitled to the same rate of dividend as the ordinary shares.

The co-partnership certificates are allocated to employees according to the grade of the worker and the rate of salary. The distribution is entirely in the hands of the trustees, subject to an appeal to the majority shareholder, who is Lord Leverhulme. The allocation is generally on the basis of 10 per cent. of the amount of wage or salary earned during the year.

The co-partnership certificates are not in themselves of value, as a share certificate would be, but are really a means of measuring the interest an employee should receive.

If an employee is discharged or discharges himself, the co-partnership certificates are valueless, but in the case of retirement are exchanged for 5 per cent. preference certificates, equal in amount to ten times the average interest received on his co-partnership certificate received during the past three years.

John Knight, Ltd.

After paying 5 per cent. on ordinary shares, employees receive—

Half week's wages for every $\frac{1}{2}$ per cent. paid as dividend on the ordinary shares over and above the 5 per cent. mentioned.

The dividend on ordinary shares last declared was $12\frac{1}{2}$ per cent.

Employees, therefore, get $7\frac{1}{2}$ weeks' extra wage, half of which is paid in cash and the other half is placed to their credit and receives interest at the same rate per cent. as is paid as dividend on ordinary shares.

Selfridge & Co., Ltd.

The articles of this company provide that preferred ordinary shares may be issued to employees on payment of par value thereof, and shall be entitled to special rates of dividend.

The profits of the company are to be applied as follows :—

- (1) 6 per cent. cumulative dividend on preference shares (free of income-tax up to 6s. in £).
- (2) 6 per cent. cumulative dividend on preferred ordinary shares.
- (3) 4 per cent. on ordinary shares (non-cumulative).
- (4) 1 per cent. further dividend on preferred ordinary shares for every 1 per cent. paid on ordinary shares up to 6 per cent., making total 12 per cent.

The preferred ordinary shares, while held by employees, confer no right of voting or attending at meetings except where the dividend therein is in arrear for three months.

The company's articles contain the usual special provisions dealing with transfer and transmission of shares held by employees.

The holders of three-fourths of the ordinary shares of the company, by resolution or notice in writing, require the directors to call for the transfer of all or any preferred ordinary shares held by employees, on payment of £2 for each £1 of capital held, together with all dividends declared but not paid, and interest on the par value of the shares at the rate of 6 per cent. from date of last declaration of dividend to date of transfer.

James Powell & Sons (Whitefriars), Ltd.

Of the net profits available for distribution, the cumulative participating preference shares take 7 per cent., and a dividend on the ordinary shares up to 10 per cent. is paid.

Of the residue, 10 per cent. is applied to reserve ; and of the balance :—

One-third is distributed amongst shareholders.

One-third is distributed amongst management.

One-third is distributed amongst workers.

The two last mentioned proportions are distributed rateably according to wages or salary.

By management is meant the persons who during the year have been responsible for the management of the business, as director, managing director, manager, or assistant manager. A limit is placed on the amount directors may receive from this distribution.

Clark, Nicholls & Coombs, Ltd.

After providing for depreciation and other reserves, for the payment of dividend on the preference shares, and for a dividend of 6 per cent. on the ordinary shares, the balance remaining is to be divided into two parts, of which one part is to be distributed among the holders of ordinary shares in proportion to their holdings, and the other half is to be distributed among the company's employees who have been in the service of the company for twelve months ending December 31, and are still in the company's service at the time of the balancing of accounts, according to the wage or salary of each individual.

The company, employing large numbers of young people and girls and its staff being a changing one, large numbers leaving in every year from one cause or another, a goodly balance of the workers' share of the residue of profit to be divided among them is unappropriated. This is, therefore, set aside and forms a "Workers' Benefit Fund," and this is applied in connection with a Provident Fund, a Dowry Fund (from which a dowry is paid to young women employees of five years' service who marry), and in connection with a Superannuation Fund.

Bryant & May, Ltd.

The plan of this scheme is that, after proper provision has been made for a just interest on capital and a proper wage remuneration to employees, and after provision has been made for depreciation and reserves, any remaining balance of profit which the directors recommend for distribution shall be divided equally between ordinary shareholders and employees.

The employees are given an opportunity of investing their proportion in special partnership shares, which carry special dividend right, and any employee holding fifty or more partnership shares is entitled to attend and vote at general meetings of the company.

A. S. Wakelin, Ltd.

Farmers, Threshing, Contractors and Forage Dealers..

The capital of this company is divided into :—

6 per cent. employee-preference shares (non-cumulative).

Employee-partnership shares, ordinary shares (to rank equally for dividend and in a winding-up).

Employee-Preference Shares.—Employees may apply for and on payment therefor have allotted to them these shares to the number of 25, but no more.

Employee-Partnership Shares.—20 per cent. (or less, according to directors' determination) of the net profits is to be applied to an "Employee-Partnership Share Fund," and the directors may apply this fund in paying up employee-partnership shares allotted to employees.

Employees to hold employee-partnership shares only while in the employ of the company. On retirement, resignation, or death they must be transferred at the fair value to nominee of directors. The certificates contain the usual clause empowering the directors to enforce a compulsory transfer if the employee fails to transfer.

Fair Value.

If the employee is *dismissed* for disobedience, insobriety, or other misbehavior, this fair value is *nil*. But if employee die whilst in the company's service the fair value is the par value of the share. In any other case the fair value is calculated as follows :—

After one year's service 10 per cent. of par value ;

After two year's service 20 per cent. of par value ;

After three years' service 30 per cent. of par value ; and so on up to ten years. When par value reached appreciation stops.

Neither employee-preference nor employee-partnership shares to carry any right to vote or attend general meetings, or to production of the books or accounts of the company.

Co-operative Farming, Ltd.

After provision has been made for reserve a dividend not exceeding 5 per cent. (free of income-tax) to be paid on ordinary shares.

The balance is to be divided into two portions, one half to be set aside for the benefit of employees and the other half to be placed to an "Ordinary Shareholders' Reserve Fund" The employees' half is to be vested in trustees, not exceeding four in number, appointed by the company—an equal number of directors and employees—and is to be applied by the trustees to the purchase of employee shares of the company, such shares to be distributed among employees as additional remuneration.

The employees' shares rank for dividend as ordinary shares whilst held by employee, but carry no right to dividend whilst not so held. When an employee is dismissed, or retires or dies, his employee shares must be transferred (at par) to a nominee of the directors.

Conclusion.

All the schemes I have set before you possess excellent features, although some have more or less serious drawbacks. No particular scheme can be singled out as an ideal one for businesses of all

descriptions, for a scheme that may be admirable for one trade may be unsuitable for another, and even in different establishments engaged in operations of a similar character different schemes may be desirable. It is for each of you, in conjunction with your directors, to formulate some scheme that you think suitable for your particular circumstances. You pay your money and take your choice—for certainly you (or your company) must be prepared to make a sacrifice at the commencement. In fact, I would go so far as to say that unless in administering a scheme the principals are animated by a genuine desire to benefit the employees, it is likely, whatever shape it may take, to be productive of harm rather than good. It is the spirit underlying a scheme, rather than the particular lines on which it is planned, that counts. Much of the prevailing unrest can be traced to the conviction in the minds of the workers that in these days it is not uncommon for large fortunes to be made by Employers without any special effort on their part. This gives rise to a quite intelligible feeling of resentment on the part of the workers that they are allowed no share in the "plunder." If it were shown that such employers are not animated by ungoverned greed, but are agreeable to allow their employees a reasonable share in the prosperity of the business, a calmer atmosphere in the industrial world would result.

As you will have gathered from a remark I let fall early in my address, I am not over-sanguine on the subject of profit-sharing unless some sound national scheme is adopted. Such a scheme could not fail to be of advantage to the community and also to the trade of the country. Employees would be more contented in establishments where the national scheme had been adopted, and although at the outset some slight sacrifice might be demanded of employers generally, they would probably find that the keener interest and greater initiative displayed in their work by their staffs (which might be looked forward to with confidence) would be reflected in the Balance Sheets, and that in the long run the increased profits would more than compensate for the amounts payable to the employees under the scheme. But a national scheme must be the result of careful study, as an ill-conceived one would be productive of much mischief, and I submit it must be on a voluntary basis. Many problems would have to be solved one of the most difficult being to find a method of determining what should be the maximum remuneration that an active director or employer should receive in return for his services and what should be the minimum wages of the employees in their respective grades and capacities. It is obvious that rates of payment must be regulated to some extent, or grasping employers would assess the value of their own services at an immoderately high figure and the services of their employees on too modest a scale, and the unfortunate employee would have no remedy. But before State regulation of wages is determined on it might be profitable for a Commission to be appointed to enquire into the effect of similar proceedings in the

past. The investigation would be of a deeply interesting character, and would take the Commission back to 2100 B.C. In or about that year, as some of you may be aware, the code of Hammurabi was promulgated, and by it minimum wages were fixed for practically everybody, and tariffs were prescribed for the hiring of shepherds, harvesters, artisans, and other classes of labor and of milch cows, oxen, and asses. Already we are promised a minimum wage Bill, and if the rate of our progress (or otherwise) during the last few years is maintained much longer it is quite conceivable that our legislators in their wisdom may renew the Hammurabi experiment. Already in controlling food prices they have followed the example of the Emperor Diocletian, whose famous Edict of A.D. 303 fixed the prices of practically all provisions in common use—hams, sausages, fish, beans, and honey being specifically named.

The lack of confidence between employers and employees so general today is often attributed largely to the limited liability system. Whether the reproach is justified or not we need not stop to inquire, but it is certainly true that if a national scheme, of an elastic character, were in operation, directors of limited companies would be afforded a magnificent opportunity of wiping out the reproach. The benevolent employer of a few generations ago who to his credit interested himself in the welfare of his employees, making kind inquiry after their respective families and possibly offering a small present on the arrival of new visitors in their homes, would be transformed into the large-hearted director. It is true that owing to the growth of our commerce the managing director of a company (or head of a firm) is not able to maintain the same personal relationship with his employees as his predecessors of fifty or more years ago, but a national scheme of profit-sharing would enable him to give tangible expression to his goodwill, which his employees would undoubtedly appreciate. The old type of employer of the better sort was apt to be somewhat of a benevolent despot not altogether free from the vices of partiality and caprice. But in his stead is arising a new and better type—a class of men who, without divesting themselves of their proper authority, see that their goodwill towards their employees takes practical shape, uninfluenced by bias or considerations of a personal character. And what of the bad employer? you may be disposed to inquire. Well he has always existed, and his end is not yet. But he is comparatively harmless and is in reality standing in his own light. So we may leave him to the natural result of his attempts to compete with the well-ordered efforts of Capital and Labor working together with mutual goodwill and a bond of common interest under the new conditions.

(From the Accountants Journal.)

THE BEST SYSTEM OF INTERNAL CHECK.

By VICTOR J. LING.

This Essay was Awarded a Prize in the
November Competition.

A system of internal check can be viewed from two main stand-points. In the first place, check systems are in operation to protect an undertaking from the fraudulent intentions of its subordinates, and supervised by a responsible officer or officers appointed by the firm. It may, however, be carried out by a separate department under the supervision of an accountant, specially appointed, and in this instance the amount of internal checking accomplished, and for which the department makes itself responsible, will affect, to a large extent, the detail work to be performed by any professional auditor appointed to safeguard the external interests of the concern. Where the internal check is in the hands of a separate department it is obvious that the checks employed will affect all officials, and will be linked up with the official audit taking place quarterly or half-yearly. From an accountancy point of view such a system is nearing the ideal.

The scope, however, of a system of internal check is often limited, and largely depends upon the size of the staff employed. It is much easier to prepare a system where there is a fairly big staff or separate department as it is then comparatively easy to distribute responsibility. On the other hand, reasonable caution in setting out duties in a small office will make it difficult for members of the staff to convert the property of the firm to their own use. It is proposed to steer a middle course in this essay, and define a system which will be adaptable to most offices, and to divide the transactions into two main divisions, "Incomings and Outgoings" corresponding to the divisions met with in all accountancy transactions, viz., Debits and Credits, and to make the system prescribed, as far as possible, automatic, and not requiring the employment of a staff of audit clerks.

In order to maintain a constant check on the numerous transactions recorded in a business, it is absolutely necessary that a good system of records is installed, and in attempting such a task, the accounting system in operation must be carefully studied, and where difficulties are experienced, adaptation will be necessary.

It is a good plan to obtain a list of all the books in use, and to construct a diagram showing how the transactions find their way into the various books. Not only is this useful for checking purposes, but it enables a secretary or accountant to explain the bookkeeping system at a moment's notice. Next, the duty of each clerk must be

carefully defined, and where duties are of a routine nature, they should be recorded by means of a tick placed against the respective operations in the duties register. A glance at this book will ascertain the state of the work, and also ensure an equal distribution. Books of account to be of value must be on a daily basis. Arrears of work often provide loopholes for the insertion of fictitious entries.

Incoming Cash. Cash Books and Receipt Books.

The record of incoming cash will be considered first. All remittances should be sent to the chief office of the firm, and not paid to representatives. Letters are usually opened by a responsible official, who should have all cheques received through the post recorded. An elaborate record is not necessary, name and amount need only be entered. The cheques will be handed to the cashier, who will sign or initial for them. All letters, including those handed in should be addressed to the firm, and subordinates not be allowed to open them. The next point to be dealt with is the form of receipt. Receipt books should be on the carbon counterfoil system, and the duplicate in the handwriting of the person issuing the receipt retained. The reason for this is that the facsimile copy of the receipt is given out, and it is difficult to manipulate the figures, whereas where the counterfoil is separate, it is quite easy to make a different entry from the amount on the receipt. Double sided carbon should be used, as the impression on the back of the duplicate will prove a pitfall for a thoughtless cheat. In some instances it will be possible to construct the receipt book so that a separate "Receipts Cash Book" will not be necessary, the postings to the Ledger being made from the Receipt Book direct. This is a great advantage, as duplication of work often hides mistakes, or gives an excuse for them, and in this way assists a person with fraudulent intent. All cash received should be banked daily, and the amount agreed with the Receipt Book. This comparison ensures that all amounts received are paid into the firm's banking account, and with very slight supervision mistakes and fraud may be prevented. If it is found impossible to have all cash remitted direct, each person responsible for its collection must be provided with a counterfoil Receipt Book on the lines of the one previously described (except that it could not be in the Cash Book form and would be of pocket size). Weekly returns would be necessary, specifying amounts collected, and those should be compared with the counterfoils of the Receipt Books at frequent intervals. Where firms remitting cash provide a special form of receipt, or send cheques with receipt form attached, the receipt should be made out by the cashier as usual, and either left in the book or placed on a special file provided for the purpose. The firm's statement forms should contain a note "No receipt valid unless on company's own form."

Sales Ledgers.

The person receiving cash should not be allowed to post it to the debtor's accounts. If this rule is strictly adhered to, it will be easy for any discrepancy between the amount received and the amount owing to be brought to the notice of a responsible official and the reason investigated.

Statements should be sent out for all accounts in the Ledger at frequent intervals. It will be found convenient to record them in a book ruled on the columnar system (for monthly accounts), twelve columns will be a convenient number, and when balances are extracted (say quarterly), these amounts can be compared with the Ledger Balances Book, thus ensuring that the Ledger balances outstanding agree with the accounts rendered. When longer credit than one month is given, it will simplify matters if the accounts are grouped into "Monthly," "Quarterly," "Half-yearly," &c., instead of making them up for different periods. Where this is done, statements are prepared for the whole of the accounts in the Ledger twice or four times each year. In order to classify the accounts, loose-leaf accounting is a great boon, but where loose-leaf ledgers are installed, care must be taken to insist on the following rules, viz. :

- (1) Ledger sheets should be numbered by the makers consecutively (this is generally done in some inconspicuous place).

- (2) The ordering of the sheets should be entrusted to a responsible official, who should control their issue and record them on a sheet register provided for the purpose.

- (3) Where the Ledger has a lock, the key should be in the hands of someone in authority.

Credits.

Credits for returned goods should always be initialled by some person in authority before they are passed through the Ledger. The Credit Book can assist anyone with fraudulent intentions to manipulate the accounts, and a very strict watch should be kept on all allowances. These are not many, generally speaking, and can be supervised very easily.

All Bad Debts written off should be scheduled, and certified before the accounts actually disappear.

Where it is customary to have a packages column in the Cash Book, care should be exercised in order to avoid anything except returned packages passing through it. It is a good practice to have a special credit book for returned packages, and to enter the Cash Book folio against each entry as it is allowed. If credit notes are not issued for returned cases, an occasional test of all the allowances on any one day will prove effective in the supervision of such allowances.

Day Books, Etc.

A strict watch is necessary in respect of the record of goods leaving the factory, otherwise it will be possible for leakages to occur, and unscrupulous persons may despatch goods to people who will never be called upon to pay for them. Here again it is necessary to have a good system of recording all orders received. If the rule that all correspondence is opened by a responsible official is maintained it will be certain that all orders received will be under his personal supervision. The essence of a good check in respect of the orders received is that the Day Books shall be linked up with the Order Sheets, and a comparison with the stockkeeper's records should also be possible. Where goods are ordered by post, the letter or postcard will form the basis of the entry on the Order Sheet, and it will be found convenient to enter all orders received in this way on loose Order Sheets, which can be filed in alphabetical order. It is recommended that the Order Sheet reference be entered on the communication received, and that a current file be kept for all orders received. At the end of each month (or oftener if required), the completed Order Sheets can be transferred to a permanent binding case, and filed alphabetically; all incompleted orders remain in the current file. Travellers will be supplied with loose sheets, on which they will write up orders received, and as they come into the counting-house they will take their place in the current file. When goods are despatched, the Day Book folio will be entered on the Order Sheet against the goods supplied, and the Order Sheet reference will appear in the Day Book. If all transactions are treated in this manner the supervision of the despatch of goods will cause little difficulty. It will be noticed also that the system provides that old orders cannot easily be overlooked. A record of all packages despatched should be kept by the despatch clerk; the records will then be complete, and if necessary a check system can be installed, embracing all the operations, or an occasional test can be made by a principal. All invoices sent to customs will require to be recorded, and it will be quite easy to have them entered in a book on the columnar system corresponding with the Ledger divisions, which are usually geographical, the totals of this book can then be agreed with the total debit postings, thus proving that all goods despatched have been charged. If the total of this book is extracted daily, and submitted to the sales manager, it provides him with material from which he can ascertain the work accomplished in his department, and can thereby detect any slackness in the despatching of goods. It is very important that where Ledger postings are not completed daily from the Day Books, but are posted from Sales Journals prepared from the Day Books, that the weekly or monthly totals should both agree and a periodical check should be instituted in this respect.

Goods Purchased and Received.

For the adequate checking of goods inwards, a sound system of ordering is essential, and the authority to sign orders should be in the hands of the principal or departmental manager. No goods ought to be received unless officially ordered, and where cases are traced of goods being supplied without orders, the offending tradesmen should be notified that the procedure is irregular. The purpose for which the goods are required will be entered on the counterfoil of the Order Book, which will answer its purpose best if it is designed on the carbon system. The purpose for which the goods are required need not appear on the duplicate forwarded to the supplier. Upon the receipt of goods, a record will be made in the Receiving Book by the receiving clerk, and the order consulted to verify that they are supplied correctly. In some instances it will be found adequate to enter the particulars of orders given in a book specially ruled for the purpose, and to post the deliveries against these items, but where numerous transactions are involved, the Order Book is better on the triplicate system, and a copy of each order given supplied to the receiving department. These copies will be filed in numerical order. Where prices are entered on the counterfoil of the order, which is sent to the supplier, and it is considered unwise that a receiving clerk should have this knowledge, it is a simple matter to tear out the second counterfoil before prices are added, or to have it perforated in such a way that the priced portion can be torn off. As invoices are received, the Receiving Book should be consulted to verify the quantities, a consecutive number given to each invoice, the quantities and particulars received marked on the counterfoil of the Order Book, checked as to price and calculations, the amount chargeable added, and then placed on an invoice file. Where goods or materials are not chargeable to any particular job, they will be treated as stores, and provided a good system of storekeeping is in operation, correct records as to their disposal will be readily forthcoming. There should be, as far as possible, a central department for the receipt of all goods, whether bought in a finished state or not, and distribution controlled from this department. All invoices will require to be certified by a responsible official, each month, before payment is made. Tradesmen's statements should be handed to the cashier, who should verify them with the Creditor's Ledger, and certify them before a cheque is drawn. Where there is only one Ledger Clerk, and statements are prepared by him, it should not be a difficult matter for the principal to compare them with the Ledger before signing the cheques. Even if this is not done, it is quite a simple matter to compare the statements with the balances taken out at set periods.

All empty cases, packages, &c., paid for, or struck off invoices, will require to be entered in a book provided for the purpose, and

the book marked with the date of their return. The reason for this precaution will be seen, as if they are struck off the account, and not returned, the firms concerns will be claiming payment for them. They are easily converted to the use of unauthorized persons, and losses may easily occur in this way. Where packages are paid for, it should be mentioned in the Record Book, and credit notes obtained as speedily as possible.

General Payments, Etc.

A register of all rents payable, and payments of a periodical nature, e. g., interest, insurance, acknowledgments, &c., will be required, and when cheques are drawn in respect of these payments, the book will form the authority for the payment. Any alterations or new arrangements should be recorded and initialled by the principal or departmental chief.

A register of the salaried staff will be required, and where salaries are paid monthly or quaterly, appropriate columns provided to record the payments. In some instances a cheque will be drawn to cover the whole amount, whilst in others separate cheques will be required. Any alterations in amounts will require the authority of the chief official, or a minute of the directors.

Accounts for expenses for travellers are best dealt with on the Impress System, an amount advanced to each representative to cover a month's expenses, and details submitted weekly. A cheque can then be drawn each month for the amount spent. Comparisons can be made, and an explanation asked for where amounts are excessive.

The Petty Cash Account can also be dealt with on the Imprest System, the Petty Cash Book being submitted each month to the cashier when a cheque is required. Vouchers should be obtained for all payments made. All persons in charge of cash ought to provide an adequate guarantee, which can easily be negotiated through an insurance office.

Wages.

This important part of internal check has been left until last, but it is really the most important. All wages should be checked by a clerk who has nothing whatever to do with the making up or paying, and the following is a set of rules applicable to this branch of internal check.

- (1) A reliable system of timekeeping is absolutely necessary, and in the absence of an automatic time recorder any mistake in the time records discovered accidentally should be thoroughly investigated. In the case where a foreman ascertains the time from the workman independently, the foreman's record should be carefully compared with the Time Book.

- (2) If the person checking is aware, through any cause whatever, that a workman is absent, he should make a point of ascertaining that no time has been recorded for this person. It may be suggested that such information rarely reaches the ears of clerks in the office, but an intelligent interest often presents such opportunities, and many frauds have been discovered in this way.
- (3) The Time Book should be carefully checked and compared with the pay sheet. Very great care is necessary in this operation, as this book forms the basis of payment for all time workers, and often the bonuses paid to pieceworkers are calculated on time. Failure to discover loss of time on the part of a workman often involves the firm in loss.
- (4) The next process is to ascertain the accuracy of the Wages Book. The Wages Register will form the basis for this operation. Each workman's full particulars should be recorded on a sheet or card, and any alteration in rate will require special authority. A record of piecework prices should be constructed in order that any payments for work can be verified. Where a special price is arranged, this should find a place in the book, and be duly authorized.
- (5) The previous rules are the first steps to ensure accuracy as well as to prevent fraud, and now it may be permitted to show how fraud is sometimes committed in dealing with wages at a later stage.
 - (a) By drawing an inflated amount more than necessary for current needs.
 - (b) By including men and women who are not actually employed in the factory.
 - (c) Including wages for workmen absent on account of various causes.
- (a) The first example should rarely occur, and only in very exceptional circumstances should an amount other than the actual amount required be permitted to be drawn. If such circumstances do arise, a strict account should be kept, and actual figures presented as soon as they are ready, any amount over to be rebanked.
- (b) The person responsible for the preparation of the figures should not pay over the money. Where the staff is too small to permit such an arrangement, the principle should be present to see the men paid. All amounts not claimed should be recorded, and signatures obtained when application is made for payment.

It should be distinctly understood by the staff that a good system of checking wages places no reflection on anyone, and

should be welcomed because it must lead to a feeling of absolute independence and satisfaction that the responsibility is properly distributed.

Conclusion.

In conclusion the writer would add that all Ledgers used in a business should be on the self-balancing system, and that the cash balance should be verified with the Bank Pass Book at frequent intervals. Where a private Cash Book is kept, the reconciliation statement can be set out at the close of each month, and in this manner the person authorized to sign and indorse cheques is kept in close touch with receipts and payments.

(From the Accountant's Journal).

SINKING FUND IDEA IS GROWING IN FAVOR.

Several Canadian Provinces Have Already Made a Beginning With Debt Redemption.

CANADIAN provincial finance has always been in a general way a topic of interest and discussion. Of late attention has centred more particularly on one aspect of that subject, namely, the advisability of building up somewhat more substantial sinking funds than has been customary in the past for the redemption of the funded debts of the various provinces. The matter is one which owes its importance to the very heavy increase which the war period has brought about in provincial borrowings, and to the lively concern which investors both in Canada and the United States exhibit toward the question of the security of large bond holdings which they have already absorbed, and will doubtless continue to absorb, provided the provinces pursue a sound financial policy.

Sound policy, according to a view not infrequently heard among large investors, calls for larger sinking fund appropriations than most of the provinces regularly make. While to others the requirements of the situation would appear to be met by the mere recognition on the part of all the provinces that it is now time to make a beginning with something of a definite and statutory character in the way of a general sinking fund, even though that beginning be only a modest one, calling for the setting aside each year of, say, one-half of one per cent. of all indebtedness that has not already been properly provided for.

Should Be Universal.

The bearings of the problem are better understood by a survey of the volume of provincial debt before the war and at the present time, together with the sinking funds which existed then and now. For it is not to be assumed that sinking funds were not known to the

provinces before the war. Proportionately they were as large at the end of 1914 as at the end of 1920. The point under consideration is rather that of whether the adoption of the sinking fund principle should not be made a binding rule, thus ensuring adequate provision for future debts to be incurred, as well as for the large ones at present outstanding.

Growth in Debt.

As at the end of 1914 and the end of last year, therefore, the situation by provinces stood :

	1914.	Funded debt	Sinking fund
Prince Ed. Island		\$818,000	\$144,233
Nova Scotia		12,452,846	379,783
New Brunswick		5,864,846	465,263
Quebec		34,558,218	1,348,875
Ontario		43,997,997	475,052
Manitoba		18,027,593	211,129
Saskatchewan		19,092,033	439,036
Alberta		22,810,733	77,319
British Columbia		20,748,146	2,563,467
Totals		\$178,370,412	\$6,104,157

	1920.	Funded debt	Sinking fund
Prince Ed. Island		\$733,000	\$173,281
Nova Scotia		19,864,893	797,153
New Brunswick		20,664,402	1,078,173
Quebec		42,106,613	1,990,326
Ontario		133,936,900	1,233,639
Manitoba		53,779,870	1,238,750
Saskatchewan		44,129,102	1,356,500
Alberta		44,044,800	1,213,159
British Columbia		43,511,936	6,039,086
Totals		\$402,271,516	\$15,138,067

Progress Already Made.

The eastern provinces have been, comparatively speaking, light borrowers, and with them the sinking fund question is not so urgent as in Ontario and the West. It is interesting to note that Ontario has been somewhat behind both British Columbia and Saskatchewan in taking up the matter. A beginning was, however, made in Ontario by an order-in-council of December, 1920, which set aside a fund at the rate of one quarter of one per cent. per annum of the total indebtedness for the redemption of which no provision had been previously made. In British Columbia, all loans with the exception

of short-term temporary borrowings, are covered by sinking funds which have been set aside from time to time, the total of which is now over \$6,000,000. Even the province of Alberta, which has only been in existence for 15 years, has since 1914 made a practice of setting aside annually one half of one per cent. of the total funded debt of the province. Saskatchewan has been more backward, but the matter of a general sinking fund to retire such loans as may be deemed expedient is now under consideration there. In Manitoba a sinking fund has been set up against the consolidated stock of the province held in London, and the provincial treasurer, it is understood, hopes within the next year or two to establish a regular fund of one half of one per cent. to cover entire net debt. Manitoba is in the fortunate position of holding 23 per cent. of its gross net debt in its own treasury in cash or investments, which implies a strong liquid position.

A Stable Structure.

It is thus evident that several of the provinces have given the sinking fund idea some attention already. What remains to be accomplished, for the sake of provincial credit at large, is the extension and universal adoption of the idea, and the placing of it on a permanent, statutory footing. That would suffice to reassure the investors to which the provinces look for their money, and to give an appearance of stability to the whole structure of provincial finance from coast to coast.

NEW YEARS RESOLUTIONS FOR BUSY MEN

I solemnly promise that on each and every day I will spend at least one hour in the open air, in walking or in some other form of physical exercise.

I further promise that I will take at least twenty minutes for my midday meal, if that is lunch, or thirty minutes if the meal is dinner.

I will give myself at least a half-hour for removing the day's dirt and for rest before sitting down to my evening meal.

I will sleep two hours before midnight, and at least six hours thereafter, in a room ventilated by an open window, both summer and winter.

I will refrain from harmful excesses in the use of candy, tobacco, medicines, rich food and from any other practice that will lower my resistance and leave me liable to disease.

I will do only such things that make for my health and my neighbor's health. I will refrain from doing anything that may damage or do harm to my fellowman.

I will set for myself high standards of living, and by clean lines of mind and body will make this year better than any previous year in my life.

MUNICIPAL EXPENDITURE CONTROL BY CITIZENS.

BY HORACE L. BRITTAIN.

DIRECTOR, CITIZENS' RESEARCH INSTITUTE OF CANADA.

(An Address before the Union of Canadian Municipalities',
Ottawa, July 27-29, 1921).

NO matter what object they may be levied upon, taxes are paid out of income, else they are confiscatory and therefore tend to diminish the spending or saving power of the individual. When the proceeds of taxes are productively expended, resulting in an increase of the efficiency of the individual, this tendency may be overcome. Insofar, however, as taxes are unnecessary, and expenditures unproductive, they constitute a handicap on industry and commerce, which depend on the consuming power of the public and an adequate source of capital for renewals and expansion.

At a time when we are laboring under the burden of a huge war debt and when production and commerce are under the handicap of postwar conditions, it is more than ever essential that all governments, national, provincial and municipal, take the fullest advantage of all existing methods of financial control and devise others. During the war, under the stress of necessity, all countries adopted waste controlling methods which are fast being forgotten, and secured a measure of citizen co-operation which would do as much for the country, under peace conditions as it did under war conditions.

The current expenditures of the Dominion went up from 25.14 per capita in 1918 to \$33.19 per capita in 1919, an increase of 32 per cent. The per capita expenditures of every province in Canada increased during the same period, for example, from 1.5 per cent. in New Brunswick and 7.7 per cent. in Alberta and Saskatchewan to 21.6 per cent in Ontario and 32.7 per cent. in Prince Edward Island.

Out of sixteen leading Canadian cities, Edmonton reduced its per capita 11 per cent., Toronto made a per capita reduction of 3.3 per cent. ; the per capita expenditures of Halifax and Charlottetown remained practically stationary, while the others had increases varying from 2.5 per cent. in London to 35 per cent. in St. John.

That the municipalities have been more successful in cutting down the per capita expenditures than either the provinces or the Dominion is natural, as the municipal governments come under the more direct observation of the taxpayers and are therefore more quickly responsive to public opinion. It is probable that we must pin our hopes of effective control of expenditures, in the initial stages, on the municipalities. If success is attained there, final success will be inevitable in the provincial and national fields.

Control Through the Budget.

The chief instrument of financial control should be the annual budget. It should be looked upon as the plan of work and expenditure for the year, both from revenue and debenture funds.

The Budget should be completed in tentative form by the close of the year preceding the year, which the Budget provides for. The time to control expenditure is before it occurs. Water which has passed down the stream cannot be recalled. When the Budget is not passed until four or six months of the year are passed the municipality has been carrying on, on the old scale for one-third or one-half of the Budget period. If the Budget has been decreased the decrease falls on the remaining two-thirds or one-half of the year to the probable disorganizations of some services. If enlargements of service have been decided upon, much valuable time has been lost and the necessary reorganization may be impossible in the time available. Moreover, operation without waste as the sparks are to fly upwards, and eternal vigilance is the only way to counteract the tendency.

It may be said that it is impossible to estimate the needs of the succeeding year, until well on in the year. If so, it would be well to wait until the year is over and then the actual amount spent would be known. As a matter of fact it is not impossible as it is actually being done in many cities. The tentative budget is merely for the consideration of the incoming Council and can be amended as more and better information becomes available. If private organizations can prepare advance estimates sufficiently accurate to be valuable for administrative purposes, public corporations can secure much better results, as governmental operations are more stable, standardized and predictable than the business of private corporations. There can be no effective financial control without an early, scientifically prepared Budget.

When Should Budget Be Passed ?

The tentative Budget should be presented to the incoming Council at its first meeting. The members should have received advance copies immediately after election. If the tentative Budget has been properly prepared, a month should suffice for its adequate discussion, amendment and final passage. If this can be accomplished by the middle of February, ten and a half months of the year remain in which to make effective the Budget plan of work and expenditure.

What Information Should it Contain ?

Before the taxpayers are asked for more money, they should be told what was done with the money they contributed the year before. The Budget should therefore be preceded by an operating account or accounts and consolidated and classified balance sheets showing the condition of the current, debenture, sinking and trust

funds. It will be necessary, of course, to base these on estimates for the last month of the year, but these could be very close and would be sufficient for the purposes of the tentative Budget. When the amended Budget is passed, actual operating and balance sheets can be incorporated.

Comparative Figures in Budget.

Comparative figures are essential in the consideration of the Budget. Therefore, in columns parallel to the proposed expenditure, should appear the actual estimated expenditure for the preceding year and, if possible, the actual expenditure for two years back.

Itemization of Appropriations.

The proposed appropriations should be itemized in two ways :

(1) According to administrative units and functional divisions under these units, and

(2) According to objects of expenditure, i. e., salaries and wages, materials, supplies, upkeep and depreciation of structures and equipment, debt charges, etc.

Without such double classification it is impossible to ascertain either to what factor increases or decreases have been due, or in what direction cuts or increases should be made. While all details need not be included in the printed Budget, information to the minutest detail should be readily available to Council.

A Debenture Fund Budget.

The practice is all too general of presenting in the Annual Budget proposed expenditures from current funds only. This is only one side of the sheet. The expenditures from borrowed funds ultimately, through the debt charges, have to be defrayed out of current funds. Debt charges are frequently classified as uncontrollable.

This is a misnomer. Debt charges are controllable, if expenditures from borrowed funds are controlled. They cannot be controlled unless proposed expenditures from borrowed funds appear in the Budget all together, instead of being presented throughout the year piecemeal and apart from the complete statement of proposed current expenditure. The word "uncontrollable" should be expunged from the municipal dictionary, not only in relation to debt charges, but with regard to expenditures by Boards of Education and Health and similar bodies.

All expenditures, apart from disasters, is controllable to some degree, at some time, by some authority. The word promotes a fatalistic psychology on the part of taxpayers and is principally useful to politicians as an alibi when confronted with an abnormal tax rate. The so-called uncontrollable debt burden would undoubtedly be lighter at the present time if municipalities were to follow more generally the policy of paying all small capital expenditures out of current funds. The abolition of the practice, wherever it exists, of

securing the consent of the legislature to issue debentures without consent of the ratepayers would also have a wholesome effect on capital financing.

The Chief Financial Officer.

The Budget should, of course, be compiled from departmental estimates and other sources by the chief financial officer of the city. This compilation should be revised as far as possible in joint conferences of the departmental heads with the chief financial officer before incorporation in the tentative Budget, which should be prefaced by an introduction written by the chief financial officer, in which he should make explanations, recommendations and suggestions and outline the plan of financing for the year, both current and capital expenditures. He should also carefully annotate the estimates prepared, clearing up for members of Council and the citizens generally any doubtful points or requests for appropriation requiring special explanation.

A Budget will not work itself. Neither can it be used effectively, if unaided, as an instrument of control by a group of men such as the Council or a committee of Council. A machine needs an operator. The operator of the Budget Control Machine should be a Commissioner of Finance who should have under his administrative control all Bureaux and Divisions having to do with the collection, receipt or disbursement of monies and the accounting for the same. As the executive officer is responsible to Council for carrying out its financial policies, he must have complete administrative control of all Bureaux and Divisions having to do with collection, raising, receipt and disbursements of funds and accounting for the same. He should be personally, or through his assistants, the collector of taxes, and other revenues, the paymaster, the cashier, the chief accounting officer and the compiler, commentator and enforcer of the Budget. Effective financial control is impossible otherwise.

Control Through Audit.

Every large municipality should have an interim audit before payment conducted by a city auditor, independent of the Finance Commissioner. In general there should be periodical audits by a chartered accountant, independent of Council. In small municipalities there should be annual audits by an outside auditor, always a professional accountant.

Simplification of Machinery.

The prevailing system of standing committees is a great impediment to effective financial control by creating unnecessary delays, by dividing responsibility, by increasing the sense of departmental independence and by dividing the city's business into "water-tight compartments." An executive committee or Board of control appointed by Council itself is the only necessary standing Committee. Strictly temporary special committees reporting directly to the Executive Committee or Board of Control could be ap-

pointed as required. The temptation to log-rolling would be dismissed, the amount of irrelevant talk cut in half and the business of Council greatly expedited. The cutting down of Council to from 5 to 7 members, and their election at large, wards being abolished, would also be a great aid to financial and general administrative control, and would minimize log-rolling and the necessary of premature construction of improvements both local and general.

Continuity of Policy.

One of the great sources of loss and waste is reversal of policies which have been partially carried into effect. While the appointment of a Finance Commissioner with powers as outlined, the election of aldermen at large and the limiting of Councils to from 5 to 7 members, would tend to continuity of policy entirely satisfactory results cannot be obtained unless the personnel of Council remains more stable. It is not enough to trust to the electorate electing a sufficient number of experienced men each year. If a man doesn't know he will be safe in his seat for the next year, his efficiency is greatly diminished during the current year. The term of office should be two or three years, a certain number being elected and retiring each year. It is true that this system would prevent getting rid of a poor man at the end of a year, but are all poor men got rid of at the end of the first year, and may not a mediocre man in his second year give better service than a better man in his first without any guarantee of another term?

Control Through Publicity.

The financial control is in the hands of the citizens. But how can they control unless in possession of the salient facts? And how can they get these facts if the public reports do not contain them, or contain them in such a form as to be unintelligible to anyone except those who wrote them? To be effective, reports must be prompt, complete, concise, in simple language, illustrated by graphic representations, instead of being a dry-as-dust document, the average public report could always be made interesting and in many cases absorbing. Every administrative head should either be an adept at writing reports or have someone on his staff if possible, to whom he could depute the work. A newspaper reporter could revise the average public report to advantage. Greater advantage than formerly is now being taken of the co-operation of the press to keep the people acquainted with their municipal affairs. Much more could be done in this way than is being done, but to be effective, administrative officers must make practical study of this form of presentation.

All public reports should be placed in considerable numbers in the reading room of libraries and every public and high school teacher should receive copies. Classes in civics should be supplied with copies, the contents of which might be used as illustrative material

in class work. Like charity, citizenship begins at home, in knowledge of and pride in the home town. The tentative budget particularly should be given wide distribution, so that interested citizens could be studying it at the same time as it is receiving the consideration of Council. Public Budget hearings could be conducted at which ratepayers would do the talking and Councillors and much more to the point if based on consideration of the tentative Budget and not on hearsay or supposition.

Comparative Statistics.

The value of the use of statistics for financial control depends entirely on the nature, accuracy and comparability. Often within the same municipality, figures apparently comparable are not so, either on account of a change in the meaning of terms used, or in the methods of accounting. As between municipalities in different provinces, and even in most cases, within the same province, the use of statistics for comparative purposes is extremely dangerous, unless the greatest care is used in assuring oneself of the fundamental identity of method, in arriving at the figures.

When our accounting and reporting methods are standardized for different grades of municipalities, comparison will be greatly simplified. The Dominion Bureau of Statistics, through its publication of municipal statistics, is exercising an important influence in bringing about standardization. The mere asking for information on standardized forms raises questions in the minds of municipal officers and Councils, and stimulates the tendency towards improved methods. Personally, I should like to see the inauguration of an annual meeting of the accounting and auditing officers of the provinces and the municipalities at the same time and in the same place as this Convention. It is sometimes said that such officers have no lee-way, no initiative in matters of changing methods. Even if this be so, such meetings, through the influence of public opinion, would soon bring about a change.

Problems of municipal financing accounting, and reporting, are fundamentally the same everywhere. There is no valid reason why a limited standardization should not be attempted, differentiating between various grades of municipalities according to population or form of organization. Even when standardization of accounts and financial reports has reached its furthest practicable limit, an intimate knowledge of local conditions and organization will be necessary before the use of comparative statistics becomes as valuable as it might be. Such information should be found in large measure in the departmental reports of the various municipalities.

The effective control of public expenditures is the most important administrative problem now before the citizens of this country. The prosperity of the country depends on an adequate solution of the problem. In the last analysis the solution rests with the people who pay the bills.

THE
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THE NATIONAL ASSOCIATION OF CERTIFIED PUBLIC
ACCOUNTANTS

Many of our Chartered Accountants will have received recently a printed bulletin, intended to further the aims and objects of the above named organization. From casual perusal it may be gathered that the intention is to create a new sort of Certified Public Accountant under Federal authority as distinguished from Certified Public Accountants who have become so under various State enactments, and therefore presumably entitled to the use of that appellation only within the boundary of the State respectively qualifying them.

Something of the same sort was attempted in Canada about twenty years ago, and it may not be inappropriate now—in view of the invitation extended to Canadian Chartered Accountants to identify themselves with this effort—to review our own experience, so that we may not thoughtlessly give encouragement to what may prove to be merely a factional movement which can result in no permanent advantage.

Our own Dominion Association of Chartered Accountants was promoted in the first instance to accomplish that very thing in Canada. There were a number of provincial organizations of Chartered Accountants at that time, each of which, under local legislative authority, established standards of competency and practice and conferred the right to use the designation "Chartered Accountant" within the province. That was and is to-day the situation respecting the C. P. A. Societies in the United States. Both there and here, there were good reasons why the professional organizations should be state or provincial only in their scope. There was, firstly, the constitutional reason—the power to regulate such matters lying within the local legislative jurisdiction, as pertaining to education and civil rights. Then there was, secondly, the geographical reason, equally compelling there and here. A National or Dominion body is of necessity unworkable, tending as it would to the centralization of

authority in some few of the great centres of business activity, to the detriment of the smaller and remote areas, wherein those best qualified to consider local needs would have neither power nor responsibility. The most that could be expected from an attempt to regulate professional concerns over such a vast territory would be that it might seem to succeed for a time, but the inevitable development of local sentiment would cause it to break up, with the added prospect that the strife engendered would make it difficult to secure any common understanding thereafter between the local bodies into which the original one had been divided. Even in such a compact business community as the United Kingdom, there has been no successful attempt to administer the professional situation in the three kingdoms by a central or federal institute.

The Canadian movement was conceived in a spirit of open hostility to the bodies which had done all the pioneer work during the twenty years previous. An essential feature of its program was to take, under the authority of an Act of Parliament something valuable which belonged to these pioneer bodies. In Washington, D.C., history is now repeating itself. One does not require to read very far to discover that there is open hostility to the old order of things, and that the state societies are deemed not to have done what they ought to have done. Yet the expounders of the new faith are prepared to admit that it is worth while to be a Certified Public Accountant, and their presumed ability to deliver a very good imitation of the state conferred degree is expected to attract a nationwide membership.

In still another respect does the campaign now under way strikingly resemble its Canadian prototype. We refer to membership tests. The objection urged against the chartered societies twenty years ago was that membership was not restricted to practising accountants. Their members had the necessary technical ability, this was not disputed, but it was urged that occupation rather than capacity was the thing to be desired in a Chartered Accountant. Consequently, no tests of professional ability were prescribed, it was deemed sufficient that the applicant could show that he had sufficient confidence in himself to rent an office and advertise the fact, and having done that and having paid a fee, he received his diploma. The promoters of the N.A.C.P.A. profess their willingness to make a Certified Public Accountant of anyone who has had three years' experience as a professional accountant. There are about fifty-seven other ways to secure this desirable privilege, the probable intention being to prevent the possibility of any one being found ineligible for it. If everything else fails you may go to Washington, and if they like your looks they will not refuse your dollars.

The bulletin tells us that all this is according to American custom, and is on the American plan. In those other days to which we have referred, we rather suspected that there was a flavor of Scotch

about it, but we stand corrected. Amongst the demands which the National Association puts forward is that all practising professional accountants should hold the degree of their profession. This ought to present no difficulty, provided an adequate office force is maintained and the stationery does not give out. Sample letters are published, the writers of which admit that they are thoroughly qualified to practice, but that the C.P.A. state degree is beyond their reach. We have them in Canada also, so we can offer our sympathy. Truly, as wise old Solomon once said, there is nothing new under the sun.

A certain degree of satisfaction arises, however, from the reflection that matters of this description no longer constitute a problem for us. Our erstwhile antagonist, the Dominion Association, has become the medium through which a healthy co-operation between the provincial bodies has been brought about, and the professional situation in Canada, as the result of a good understanding between the Federal and Provincial authority and a sincere effort to find common ground, could hardly be improved.

And so it will be in the great country to the south of us. So soon as there is the disposition on the part of the state C.P.A. societies to get together with a view to finding common ground upon all matters affecting professional welfare, some progress will be made, and eventually their problems will be solved. The C.P.A. over there should mean something quite as definite as C.A. throughout Canada. It is of course a larger situation—forty-eight points of view to be assimilated instead of nine, but nothing is impossible.

The fundamental difficulty in their professional accountant situation is that the state societies, as such, have never made any serious attempt to get together. The American Association of Certified Public Accountants was not composed of the state societies or the members of these societies *ipso facto*, it simply included them or such of them as might care to belong, but it included also a large miscellaneous membership, which made concerted action impossible. As a propounder of professional ethics, good technical procedure and practice, and as a medium of good fellowship, it was admirable, but it failed to solve the national problem. It was probably the realization of this, in part at any rate, that led to the formation of the American Institute to take its place, but this body, no more than its predecessor, is making any progress towards achieving a settlement of the national question. These state boards exist by legislative authority and the task is to get them to work together, not to override them, or ignore them.

Canadian Chartered Accountants probably require little assistance in deciding what their attitude ought to be towards the N.A.C. P.A. As Canadians we have no business to be mixed up with it, but if that were not enough there are other reasons. The National Association, so called, is incorporated—as we would say in Canada—by

letters patent under the Companies Act, or its District of Columbia equivalent, and is therefore a private corporation, incapable of legally exercising any public function, such as it pretends by its literature now to be doing. Were it competent, however, to perform such functions, failure is certain, so long as it does not make the effort in co-operation with the state bodies. You cannot have two kinds of Chartered Accountants or Certified Public Accountants legally holding out in common territory without undermining public confidence. What is likely to happen is that a good many people will exchange their money for something that looks like a diploma, which they can frame and hang up on the office wall, and the money will pay for printing more bulletins.

MANUFACTURERS SAY WORST OF TRADE DEPRESSION OVER

One hundred and fifty prominent Canadian manufacturers, reviewing conditions and outlook for 1922, in the January issue of "Industrial Canada," the official publication of the Canadian Manufacturers' Association, take a generally hopeful view of the industrial situation. In the opinion of the large majority, Canada has seen the worst of the depression, and from now on a slow but steady improvement is anticipated. Estimates differ, largely according to types of industry, as to when normal activities will be resumed. In some industries the change for the better has already taken place; in others, the turning point is placed about March or April; in a limited number no appreciable betterment is expected until the fall. High freight rates and low prices for agricultural products are regarded as the principal obstacles in the way of a more rapid recovery.

BANK AUDITS

The following are extracts from the Annual Reports of two of the leading Canadian Banks:

CANADIAN BANK OF COMMERCE

"There has recently been some discussion in the public press of the reliability of the annual statements published by the banks and of the auditors' certificates attached to them.

As to the auditors' certificate, the auditors whom you elect each year are chartered accountants belonging to well-known firms of established reputation. They are voted each year at these annual meetings a considerable sum for their services, namely, \$20,000, and undoubtedly they put forth their best endeavors in the discharge of their

duties. They visit a number of the principal offices of the bank, and in addition to verifying the accuracy of the records, and the physical existence of the cash and securities held as investments or as collateral for loans, they carefully examine the annual review of all slow or dragging loans and investments, of which I have spoken, and for their own satisfaction are placed in possession of the evidence upon which our estimate of the value of such assets is based. If this does not satisfy them, they are at liberty to make such independent investigations as their judgment may dictate. In our opinion their work is well and thoroughly done."

ROYAL BANK OF CANADA

"In view of the discussions which have recently taken place regarding the obligation of auditors of banks appointed under the provisions of the Bank Act, it is proper that you should be informed that the auditors appointed by the shareholders of this bank not only certify to the correctness of the Balance Sheet, but they also approve of the value of the bank's assets as stated therein. The representatives of the auditors, who conduct their investigations of the bank's business throughout the entire year, have access to the statements, correspondence and inspection reports relative to all loans required, and their certification of our Balance Sheet is made only after a full examination of all credits granted to customers. In cases where there is any doubt as to the value of a debtor's account, the amount set aside by the bank to take care of any possible loss is approved by the auditors as being sufficient. Every facility is afforded them to examine each and every account in the bank, and they are encouraged to criticise and make the most detailed investigations of every debt due the bank, with the relative security."

"WATERED STOCK"

Used at present only in connection with stocks, bonds and other financial arrangements which are unduly capitalized and therefore do not return a proper dividend to their investors, the term "watered stock" belongs properly to that class of phrases which has a real history behind it—a history analogous to that which underlies such words as "boycott," "jazz," "quiz," "bogus" and a number of other words that, today, are recognizedly a part of the colloquial language.

Once upon a time—in the middle of the last century, to be precise—there was a cattle raiser in the western section of the United States by the name of Daniel Drew. Even in seasons when his neighboring ranchmen were barely able to make both ends meet,

Drew always seemed to get along very comfortably and his financial returns from his stock farm appeared to be out of all proportion to the size of the steers which he would send to market. Determined to solve the mystery, one of the other drovers made a point of following Drew the next time he started out with his cattle. Nothing unusual occurred until they neared the city where the market was located, although the watcher noted that the steers seemed to be exceptionally thirsty. Drew, however, would not permit them to stop for water, but kept them moving at a rapid pace, allowing no halt until they were within a short distance of the market. Here they stopped for an hour or more by the banks of a stream and the cattle, hot and thirsty from their long trip, drank until their sides distended. Then Drew drove them in to the scales and sold his "watered stock" for considerably more than it was worth—incidentally, giving rise to a phrase which was later destined to be widely used as a synonym for anything that isn't worth as much as it appears to be.

PRIVY COUNCIL DECISION

The Attention is called to a late decision of the Privy Council that companies incorporated under the Dominion Companies Act cannot legally own land, nor can they give a valid mortgage or issue bonds against the same without having obtained a License in mortmain or re-incorporation from the Government of the Province in which the real estate is situated.

AVERAGING PROFITS AND LOSSES

The new Revenue Act of the United States has certain features entirely ignored in Canada's system of collecting income tax or excess profits. It provides that a taxpayer may apply the amount of his business loss in 1921 against business gains in 1922, and will be subject to tax only on the net income of the two-year period. If the 1922 gain is less than the 1921 loss, the difference may be carried forward to apply against 1923 gains. The taxpayer has two years in which to make up in gains for a loss sustained.

Owing to depreciation in inventories business houses have had to write off large sums in 1921, resulting in losses rather than profits. The situation has been much more severe in the United States than in Canada, but it would be much fairer to Canadian business to base profits and losses on averages rather than results in distinct and separate period.

SALUTATION

The Publication Committee in wishing the subscribers a Happy and Prosperous New Year desire to express their great appreciation of their patience and forbearance in the irregular appearance of the magazine since April last, owing to the printers' strike, which is still in force here. With the determined effort of the publishers, however, the Committee hope soon to catch up with the regular times of issue. Renewal remittances are in order and will be appreciated.—Kindly note that the magazine is published every two months and the annual subscription is now Two Dollars.

Members of the profession will be interested to learn that enrollments for the new Instruction Courses of the Ontario Institute have exceeded all expectations, applications from Newfoundland to Alberta having been received.

PERSONAL

Mr. W. A. Tolmie C.A. announces the removal of his office to Metropolitan Building, Hastings Street West, Vancouver.

Mr. G. G. Rowbotham C.A. of Price, Waterhouse & Co., has been transferred from Montreal to the New York office.

Messrs. John Scott & Co., Chartered Accountants, announce the removal of their offices from Belgica Block to 307-8 Montreal Trust Building, Winnipeg.

Announcement is made of the change in name of the firm of Messrs. Lawson Welch & Campbell, Chartered Accountants, to Messrs Welch, Campbell & Lawless, with offices, as formerly, at 59 Yonge Street, Toronto.

Mr. Robert Wilson C.A., Montreal, announces that he has formed a partnership with Mr. Walter E. Cushing under firm name of Wilson & Cushing as Authorized Trustees, Liquidators, etc., with offices at 108-110 Board of Trade Building, Montreal.

Mr. David Cooper, C.A., and Mr Maurice S. Donovan, C.A., Winnipeg, announce having acquired the Accounting practice formerly carried on by the late Mr. R. C. Macdonnell under the firm name of Cherry & Macdonnell. The business in Winnipeg will be carried on under the firm name of David Cooper and Company and the business in Brandon under the style and firm name of Cooper Donovan & Company.



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF ONTARIO

(Incorporated 1883.)

Rutherford Williamson, President.

T. Watson Sime, Secretary.

W. J. Valleau, Registrar.

The following candidates have passed the examinations of the
Institute of Chartered Accountants of Ontario :

Final Examination.

R. Douglas Hill, Thomas James, M. I. Long, Norman L. Morton,
S. Ernest Parker, Clarence A. Patterson, Guy W. Smith, David Vise.

Intermediate Examination.

M. L. Ashmore, Frank Bell, F. H. Black, F. H. Burkholder,
H. A. Calvin, jr., W. A. Cameron, G. E. Chidley, J. D. Code, B. K.
Coulson, B. S. Crecine, C. S. Davies, Robert Donellan, John J. English,
W. Gordon Firstbrook, G. H. Forster, Eric Fricker, Henry Glover,
F. H. Gray, H. R. Grundy, E. W. Harper, H. A. Hopkins, A. Douglas
Hume, Arthur M. Hunt, Alan W. Jackson, A. D. Jamieson, E. A.
Jarrett, C. S. Kennedy, M. M. Kennedy, H. A. Lever, Norman D.
Mackay, A. M. Munro, Alan E. Phin, H. Pinnock, F. W. Rutherford,
D. J. Sales, W. M. Sinclair, H. U. Steele, R. G. Steele, R. A. Stephen-
son, E. W. Stronach, L. C. Tesky, F. S. Vanstone, S. E. S. Vardon,
R. S. Watson, Thomas Weir, W. F. Williams.

Primary Examination.

G. H. Allely, A. E. Allen, A. J. Andrews, J. E. Boundy, M. A.
Bradshaw, Hugh E. Brown, G. Walter Brown, J. B. Buchan, J. R.
Croft, R. B. Currie, S. O. Cuthbertson, J. L. Davidson, W. G. Dryden,
B. I. England, Geo. H. Glennie, Chas. A. Greer, L. L. B. Hamlin,
A. J. Hardy, C. W. Haydon, Fred C. Hill, G. C. Horne, E. P. Hudson,
Harold J. Jeffery, C. G. Kilty, A. F. King, F. Lightwood, D. B. Larke,
F. A. R. MacFadden, E. D. Martin, W. H. Matthews, R. W. Morrison,
T. A. Morrow, L. E. McBain, Bert McFarlane, A. H. McLachlan,
G. A. McLeod, J. G. McMillan, Jas. McQueen, E. T. Pointon, A. H.
Pratt, C. W. Saddington, Geo. Sayer, J. Angus Seddon, Neil M. Smith,
W. A. Spear, E. Stein, R. B. Taylor, A. W. Trew, R. P. Uffelmann,
C. H. Windler, Norman S. Watt, E. J. Woodward.

Scholarships Awarded.

Past Presidents—Final, David Vise. Intermediate—C. S. Kennedy ; Primary—E. T. Pointon.

Institute—Final, Guy W. Smith ; Intermediate—C. S. Kennedy ; Primary—W. G. Dryden and R. B. Taylor (equal).

CHARACTER

It is character that counts in a nation as in a man. It is a good thing to have a clean, fine intellectual development in a nation, to produce orators, artists, successful business men ; but it is an infinitely greater thing to have these solid qualities which we group together under the name of character—sobriety, steadfastness, the sense of obligation towards one's neighbor and one's God, hard common sense, and combined with it, the gift of generous enthusiasm towards whatever is right. These are the qualities which go to make up true national greatness.—Roosevelt.

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SOME POINTS FOR CONSIDERATION IN CONNECTION WITH A CUSTOMER'S BALANCE SHEET*

By MR. E. JAMES BENNETT, C.A.

of Messrs. George A. Touche & Co., Chartered Accountants.

Mr. Chairman, and Gentlemen, it gives me much pleasure to be with you to-night. I must confess that I have never met so many bankers before. On those occasions upon which an overdrawn bank account has necessitated an interview I have found that one banker at a time was a big enough proposition to tackle.

The lecture to-night is entitled "Some points for consideration in connection with a customer's Balance Sheet."

Over three hundred years ago Shakespeare put into the mouth of Polonius the words:

"Neither a lender nor a borrower be
For loan oft loses both itself and friend
And borrowing dulls the edge of husbandry."

In the intervening years this advice has been singularly disregarded with the result that to-day we have, in practically every country within the British Empire, a strong group of Bankers whose principal function it is to lend, and on the other hand a much larger but less strong group of traders and individuals who are only too eager to assist them in carrying out this laudable mission.

Whatever we may think of his advice, Shakespeare's words are undoubtedly true of ill-advised loans, which subsequently turn out difficult or impossible to collect. I remember a banker friend of mine once telling me of a gentleman, whose insobriety and impecuniosity

*A lecture delivered to the Toronto Banker's Educational Association, at the University of Toronto, 8th February, 1922.

were equally notorious, coming into his office with the request that he would lend him a hundred dollars. My friend, not wishing to refuse him point blank, and knowing that Smith, another banker in the same town, had been foolish enough to lend the applicant money at one time, said, "Why don't you go to Smith he's your banker isn't he?" "Smith!" said the would-be borrower in a tone of the deepest contempt, "Smith! Why Smith is not a banker, he's only a debt collector."

I imagine that it is the ambition of all of you to remain bankers and not become debt collectors. To avoid becoming the latter is not altogether possible in this imperfect world, unfortunately, but a proper understanding of the statement of affairs of an applicant for credit based on authentic information will go a long way toward helping you.

It has been said that a bank manager should have charming manners but a pessimistic temperament, and a pessimist has been defined as one who once took the advice of an optimist. I think it is safe to assume that most bankers at some time in their career have met their optimist and consequently, have developed a strain of pessimism which stands them in good stead when dealing with many Balance Sheets presented for their consideration.

I will, therefore, treat my subject from the standpoint of a banker who has developed the necessary modicum of pessimism—perhaps better termed "caution."

Though the Balance Sheets presented to you gentlemen, for the purposes of obtaining credit may be those of an individual, a partnership or a limited company, and may purport to represent the condition of a corner grocery store, or a transcontinental railway system, they may be divided into two classes—audited and not audited—and when I say audited I mean audited by a reputable firm of Professional Accountants. Time will only permit of dealing with this class of Balance Sheet. As regards the other class, my advice is to insist on a proper audit of any Balance Sheet presented to you in connection with an application for a loan.

In view of my profession I feel a certain amount of diffidence in making such a statement, but I really cannot see how a banker can properly size up the position of the average commercial borrower unless he is sure that the figures appearing in the Balance Sheet are in agreement with facts. Save in a few exceptional cases a banker cannot afford the time to investigate his clients' books and affairs in the way that a Chartered Accountant would, and I cannot imagine that a banker would willingly forsake the easy chair of the Manager's room for the uncomfortable stool of the practising accountant, modern business conditions are highly complex and more than ever it is a case of every man to his own trade. Holding these views I hope that you will pardon me, therefore, if I lay more stress on the work of the auditor than modesty would ordinarily permit. I would emphasize

CONSIDERATION OF A BALANCE SHEET

the necessity of making certain that you obtain either the certificate or report of the auditors on the Balance Sheet presented to you, so that you may know what qualifications, if any, the auditors have made when signing the Balance Sheet. Cases have been known where the auditors' qualifying report has been abstracted from the enclosing cover and the Balance Sheet alone presented.

It is often the case that the auditors' report puts a very different complexion on the figures in the Balance Sheet by stating the limitations of the audit, a qualification as to the value placed on certain assets, and so forth. Bankers should bear in mind that it is not the duty of an auditor to prepare a Balance Sheet, but to audit it. Though an auditor often will make suggestions as to the groupings of the various items, or point out that there is some error of omission or commission, he has no legal power to enforce his advice and if the error is of any importance and his clients refuse to rectify it, his proper course is either to refuse to sign the certificate to the Balance Sheet, or to refer in the certificate or report to the point upon which he does not agree with his client, or the management, in the case of a company. For this reason, where a clear certificate is not given, some firms of accountants make a notation at the foot of the Balance Sheet such as "The above is the Balance Sheet referred to in our report of even date," or words to that effect.

Some two or three years ago the Federal Reserve Board issued a Federal Reserve Bulletin, entitled "Approved Methods for the Preparation of Balance Sheet Statements," a tentative proposal submitted by the Federal Reserve Board, Washington, for the consideration of Banks, Bankers and Banking Associations: Merchants, Manufacturers and Associations of Manufacturers: Auditors, Accountants and Associations of Accountants. This pamphlet proposed that certain rules should be followed when auditing the Balance Sheet of a manufacturing concern and suggested that the auditors' certificate should read as follows:

"We have audited the accounts of for the period fromto..... and we certify that the above Balance Sheet and Statement of Profit and Loss Account have been made in accordance with the plans suggested and advised by the Federal Reserve Board, and, in our opinion set forth the financial condition of the firm at (blank date) and the results of its operations for the period."

The idea being that any banker receiving statements certified in such a way by reputable auditors could rest assured that the items making up the statements had received proper scrutiny and verification and had been dealt with on the lines laid down in the bulletin. I am not informed as to whether this suggestion was carried any further—I rather think not—but it appears to me an excellent one and I offer it for your consideration.

I assume that before recommending a credit to his Head Office, a banker will satisfy himself as to the moral integrity and business ability of the borrower, or management in the case of a company, and also assure himself as to the effect a change of tariff, foreign competition, change in management and the like, may have on the future of the business.

In this paper, therefore, I will confine my remarks to the Balance Sheet proper, although the considerations just mentioned are, needless to say, of paramount importance.

A Balance Sheet purports to show the assets of a concern or individual on the one side and the liabilities on the other. In England liabilities are invariably shown on the left hand side and the assets on the right, whereas here and in the United States the opposite is the case. It has been suggested that the reason for this is that in conservative England a trader wants first to know what he owes whereas on this side where optimism is more in the ascendant and the slogan "Safety First" is of modern origin, a trader is more interested in his Assets than in his Liabilities. Be that as it may, in this country the Assets and other debit balances appear on the left hand side of the Balance Sheet and the Liabilities and other credit balances on the right hand side.

The title "Balance Sheet" is not one of the best and has often been critized, but the term is so general now that it is doubtful whether it will ever be altered. As a matter of fact, the title "Balance Sheet" is a bookkeeper's term, denoting that after making up his Profit and Loss Account he has brought all his open balances together and the debits agree with the credits. What most of us are interested in nowadays are facts, not figures, and bankers especially wish to know the state of affairs or condition of a business. Whether the books actually balance or not is a matter of secondary importance.

When convenient, I would suggest that the customer be requested to arrange an interview between his auditor and the banker, at the same time authorizing his auditor to discuss the Balance Sheet and audit with the banker and give all the information required. It is necessary to bear in mind that it is absolutely against professional etiquette for an auditor to give information about his clients' affairs to a third party, even his banker, without first obtaining his clients' permission to do so.

A banker should endeavor to get his clients when preparing their Balance Sheets, to put their current assets first, thus: Cash, Notes and Accounts Receivable, Inventories, Investments (if readily realizable), making a sub-total of Current Assets. Then Fixed or Capital Assets, Good-will and Deferred Charges coming last, though frequently Deferred Charges are inserted before Fixed Assets. The Liability side should correspondingly have the Current Liabilities first, then Long Term Loans, Reserves, Capital and Profit and Loss Account Balance carried forward. This arrangement will enable

a banker to arrive at the liquid position of the borrower in the shortest possible time and without having to do a great deal of analyzing and regrouping of Assets and Liabilities.

It is hardly necessary to dwell on the point that what a banker is primarily interested in, is the liquid position of the borrower, if he cannot see that the proposed loan will be amply covered by liquid assets valued at a conservative figure and will be repaid within a reasonable period, then prudence will demand that the accommodation be gently but firmly refused and the suggestion made to the borrower that what he requires is not a bank loan but further permanent capital in the business, to rely on the fixed assets in any way for repayment is too often a snare and a delusion and will in many cases, result at best in a "frozen" credit. When available the figures of previous Balance Sheets should be collected on a suitable form for comparative purposes, so that the history of the concern during the last few years may be seen at a glance—particular attention being paid to the growth or otherwise of the liquid surplus.

We will consider each of these items of Assets and Liabilities in turn, and I will briefly indicate what inquiry I should consider it advisable to be made when examining the Balance Sheet of an applicant for credit.

Cash in Hand

If of any considerable amount it might be as well to inquire if the amount shown consists of actual cash, or is composed of I.O.U.'s or expense vouchers, the latter should be absorbed as expenses in the period in which they were incurred.

Cash at Bank

This may be the balance shown in the client's cash book, or may be the actual balance appearing in the Banks' books, the cheques not presented to the Bank being added to the Accounts Payable. When discussing this item it would not be amiss to ask the auditor if he has inquired into, and is satisfied as regards the arrangements for handling cash receipts and disbursements and the precautions taken against fraud, also whether the members of the staff handling cash and goods are sufficiently bonded.

Accounts Receivable

These should be divided on the Balance Sheet under the sub-headings of Trade, and Other Accounts Receivable. Inquiry should be made as to whether these balances have been scheduled and aged and if possible the schedules themselves inspected. What constitutes a slow or overdue account will naturally depend upon the credit terms obtaining in the particular trade. A Bank Manager will naturally want to know what Reserve has been made for Bad and Doubtful Debts and whether provision has been made for Trade discounts and allowances. The list of Accounts Receivable will probably indicate whether the client's business is well spread or whether it is dependent

on one or two large customers. If the Manager finds the latter to be the case he will probably come to the conclusion that caution is necessary in recommending the credit. Very careful inquiries should be made as to whether any of the Receivables are due from affiliated or subsidiary companies. Generally speaking, where a company controls through stock ownership another company, the accounts of the two should be consolidated and inter-company balances eliminated. This is sometimes not practicable, but where such a balance occurs, and is of a substantial amount, a banker should make certain that the affiliated company is in a position to pay its liability to his clients. In order to do this it will probably be necessary to procure the Balance Sheet of the debtor company and examine it in a similar manner to that of the borrowing company.

Auditors nowadays, when circumstances permit, obtain a direct verification from the debtors of the balance owing. This is obviously a more satisfactory check than verifying postings in the ledgers. A Manager should, therefore, ascertain what has been done in this direction—sometimes owing to the number of accounts a test only is made by sending out a limited number of requests for verification; in other cases it is more convenient and advisable to make the verification at a date other than that of the Balance Sheet; in any event, whenever it is done this method will disclose in addition to actual fraud, any carelessness there may be on the part of the borrower's clerical staff, and the banker should, therefore, ascertain if the discrepancies revealed are so numerous or of such amount as to throw doubt on the capability of those in charge of the books. I presume that a Manager, when perusing the schedules of Book Debts, will ascertain Dun's or Bradstreet's ratings on the larger ones at least. Inquiry should be made to ascertain that no Accounts Receivable are included covering goods on consignment or goods sold for future delivery.

Both the Dominion and Ontario Companies' Acts require that debts owing by directors, officers and shareholders shall be shown in the Balance Sheet separately from those of ordinary trade debtors, and it is important that a banker should ascertain that this requirement has been carried out, otherwise the total of the accounts receivable may be swelled by balances which have not arisen in the ordinary course of trade and may possibly be of very little value.

Notes Receivable

The remarks regarding Accounts Receivable are also applicable to Notes Receivable, in fact in many cases I consider it a mistake to treat these so-called Notes Receivable as such.

In practice directly a draft is drawn on a customer his account is credited and Bills Receivable debited—the draft may never be accepted or is often renewed time after time with the result that it requires considerable research work to discover what the true posi-

tion of a debtor's account really is. Where feasible the better plan would appear to be to lodge the drafts for collection with the Bank, the customer's account not being credited until the note is actually paid. It is most desirable to ascertain whether the Notes Receivable are legitimate trade paper and do not include accommodation paper.

Inventories

In many manufacturing companies' Balance Sheets this Asset is quite the most important and one about which the most careful inquiries should be made. It is important not only from the point of view of the Balance Sheet, but even more so from that of the Manufacturing and Profit and Loss Accounts. A little undue optimism on the part of the management when taking the stock will sometimes make all the difference by turning a loss into a profit for the trading period.

Though one of the most important assets an auditor has to deal with it is also one of the most difficult. It has caused more heart-burning and provoked more discussion than probably all the other assets appearing in the Balance Sheet put together.

The position of the auditor in regard to the verification of this asset is extremely difficult. Bankers and the public generally will occasionally question the value of an audit and the Accountant's certificate because they will point out that the auditor takes no responsibility as regards the value of the inventory, inasmuch as he states on the face of the Balance Sheet that the inventories are as taken and certified by responsible officials of the company, or words to that effect. The critics point out that the verification by the auditors is of very little value when such an important item as the inventory is not certified by them, consequently, if it is misstated, the Profits shown are correspondingly inaccurate.

From a legal point of view, the auditor's position would appear to be well established. The classic case is that of the Kingston Cotton Mills and is the one most generally referred to in connection with the duties and responsibilities of auditors as regards the verification of inventories. In giving Judgment, one of the Judges in the Court of Appeal said: "It is no part of an auditor's duty to take stock. No one contends that it is. He must rely on other people for details of the stock-in-trade in hand. In case of a cotton mill he must rely on some skilled person for the materials necessary to enable him to enter the stock-in-trade at its proper value in the Balance Sheet. In this case the auditors relied on the Manager. He was a man of high character and of unquestioned competence. He was trusted by everyone who knew him. The learned Judge has held that the directors are not to be blamed for trusting him. The auditors had no suspicion that he was not to be trusted to give accurate information as to the stock-in-trade in hand, and they trusted him accordingly in that matter."

In the case of Henry Squire (Cash Chemist) Limited, vs. Ball, Baker & Co., and Meade vs. the same, Lord Alverstone in giving Judgment said:

"It has been held over and over again and it has been recognized in the Court of Appeal, that it is not an auditor's duty to take the stock."

The legal liability of auditors being such, the question arises whether there is a moral responsibility attaching to the auditor over and above his statutory or legal responsibility. The modern tendency is, I think, for auditors to go into the question of inventories far more thoroughly than was the practice some few years ago, and if a comprehensive check is made on the stock the chances are a hundred to one that the auditor will detect any considerable fraud.

As Mr. Montgomery says in his text book on auditing:

"Numerous instances might be cited where professional auditors without any special knowledge whatever in particular lines of business have detected overvaluation, excessive statements of quantities and misstatements as to the condition of the stock, some of these discoveries being of sufficient importance to stop the sale of a business or the extension of a line of credit by a Banker."

I think that I am safe in saying this statement is in agreement with the experience of most practising accountants; at the same time there are many businesses which deal in or manufacture goods that are very difficult to actually value and verify and where the Accountant, to a large extent, has to rely on the bona fides of his client.

After the Banker has ascertained from the Auditor exactly what has been done in the checking up of the stock he would be well advised in my opinion, to obtain a signed statement from his client certifying certain matters in connection with the inventory.

This statement would be more definite than the forms usually used in connection with goods secured under Section 88 of the Bank Act and should cover inter alia the following points:

I. That the borrower personally superintended the taking of stock on the daysto..... amounting to \$..... as per summary attached. This Summary should be signed by him, the total of such Summary agreeing with the figures in the Balance Sheet.

II. That he certifies that:

(a) The inventory is conservatively valued at cost or market, whichever is the lower.

(b) The goods covered by the Inventory are in his possession and are fully paid for except by the amounts shown in the Balance Sheet under "Accounts and Notes Payable" amounting to \$.....

(c) The Inventory is free from all liens or other charges whatsoever.

CONSIDERATION OF A BALANCE SHEET

(d) All obsolete and depreciated stock has been written down to actual market value.

(e) The basis for valuing stock was (here state the exact basis on which manufactured and partly manufactured goods were valued).

III. That he understands that he is signing the statement which he is presenting to the Bank with a view to obtaining credit.

In this connection I would remind you that certain Banks in the United States obtain affidavits from their borrowers covering their Assets and Liabilities—one of such forms starting with the following words:

For the purpose of procuring credit from time to time from you, the undersigned hereby makes to you the following statement of the condition of the undersigned on the.....day of19..; and the undersigned hereby agrees and guarantees that said statement is in all respects true and correct; and you may consider said statement as to the pecuniary responsibility of the undersigned, as continuing to be true and correct until written notice of a change is given to you by the undersigned."

(My own opinion is that an auditor's check of the inventories should cover the following points:

(1) Obtain a written statement as to the method followed in taking inventory.

(2) Ascertain exact dates upon which stock was taken and inquire: Whether plant was closed down during stock taking, inquire what system was used as to out-going and in-coming goods, and also inquire if those supervising stock-taking had a clear idea in mind of results required from an accounting point of view.

(3) See the individual original sheets are signed by person.

(a) Taking Stock.

(b) Fixing Prices.

(c) Making Calculations.

(d) Additions.

(e) Checking (c) and (d).

(4) Test stock sheets with original lists, tickets or other original information.

(5) Test extensions over a certain amount.

(6) Check additions.

(7) Test prices of larger items with latest invoices.

(8) Test additions to actual price of goods such as freight, insurance, etc.

(9) Compare quantities and prices with last inventory of all main items.

(10) Where practical, make an inspection of actual physical condition of inventory items over a certain amount.

(11) Where a physical inventory has not been taken as to the date of the Balance Sheet and where in lieu thereof quantities and values are taken to the Inventory from the Stores Ledger, such quantities having been physically checked at frequent intervals during the period, a test or complete check, as determined necessary should be made as between the quantities shown on the Store Ledger and the quantities shown in the Inventory.

(12) Where no physical count of manufactured or partly manufactured goods has been made, personally see larger items or be satisfied as to their fate since end of year.

(13) Where possible pay visit to Plant when Inventory is actually being taken.

(14) Inquire and determine that all merchandise shown to have been received prior to, or on closing date, is included in Inventory.

(15) Ascertain that all liabilities for stocks included in Inventory have been entered in books.

(16) Look into question of goods in transit.

(17) Ascertain that no goods on consignment from other parties are included in Inventory.

(18) Verify consigned goods by certificates from consignors.

(19) Look into post dated invoices and ascertain that no goods have been included in inventories without the corresponding liability being set up.

(20) Ascertain whether inventories are taken at cost or present market prices, whichever is the lower.

(21) Investigate cost system from point of view of inventories.

(22) Ascertain that all goods included in sales have been taken out of work in progress.

(23) Ascertain that inventories have not been overloaded with general overhead, interest or selling expenses.

(24) Ascertain that goods delivered to branches and consignees are bought in at cost, not selling prices less reserve for damaged or obsolete goods.

(25) Inquire into inactive stock.

(26) Examine price lists to see that finished goods are below same after allowing for discounts, selling expenses and profits.

(27) Ascertain if Company has discontinued any lines during year. If so, see that such goods are amply reserved for in Inventory.

(28) Ascertain that trade discounts have been deducted from Inventory list.

(29) In normal times check inventories by comparative gross profit test.

(30) Compare total of Inventory with turnover and ascertain how many months' stock is in hand—compare this with previous years.

(31) Ascertain that no goods sold, billed and awaiting shipment is included in Inventory.

(32) Look into quantities and ascertain if reasonable. If unduly large state reason.

(33) Scrutinize Inventory at commencement of year to ascertain that inventories are valued on same basis at commencement and end of year.

(34) Obtain certificates from consignees as to quantities, etc., held.

(35) Look into method of charging out Finished Stock from work in progress in order to determine that the value placed upon the latter is substantially correct, especially so in cases where no attempt is made to confirm this by physical means.

(36) Look closely into prices of merchandise covered by commitments as compared with present inventory prices.

I have mentioned these in detail so that when you are talking to the auditors you can just find out how much of this work has been covered.

In addition to this, a certificate should be obtained by the auditor from the Managing-Director or other responsible official covering, inter alia, the following points:

1. Date upon which the inventories were taken and adjustments made in regard to incoming and outgoing goods.

2. Statement as to ownership—consignment goods owned by other parties being eliminated.

3. Verification of consignment goods held by agents or others.

4. Method of preparation of Inventory by employees.

5. Basis of valuation.

6. How quantities were calculated.

7. Reserve for inactive or obsolete stocks.

8. Liability for all merchandise brought into the books at date of Balance Sheet.

9. Whether goods held as security for loan by Bank or other creditors.

10. Whether the basis of valuation has been changed from the last inventory taken.

This statement is a different one from the one that I have suggested the Banker should obtain, though to a large extent, it covers the same ground. My object in suggesting that the Banker obtains a signed statement is to link up once a year the merchandise held under Section 88 with the Balance Sheet figures and thus make the borrower criminally liable should he have overstated his merchandise on hand.

I have dealt fairly fully with the question of Inventories. In many cases as I have said before, it is the most important Asset appearing in the Balance Sheet and the one that should be the most carefully investigated.

Securities

Where this asset represents securities quoted on a Stock Exchange the value is readily ascertained—the best practice is to value them for Balance Sheets purposes at cost or market, whichever is the lower—in other words, provide for a loss but ignore a paper profit. Where the securities are those of a company whose shares are not quoted on an Exchange the basis of valuation should be ascertained, and in the case of a large amount the Balance Sheet of the company scrutinized; this is particularly the case when the company is an affiliated or subsidiary company of the borrower.

In the case of unlisted companies, the investment is probably more in the nature of a fixed asset than a current one.

As I have already indicated, whenever credit is being sought by a concern which is one of a group, a consolidated Balance Sheet should in most cases be insisted upon in order to obtain a proper view of the financial standing of the group as a whole.

Fixed Assets

Land

The Banker should ascertain if the land is valued at cost or otherwise and compare the value with the assessment of local authorities, and if it has been written up to see that the increase has been carried to a Special Reserve and has not been brought into Profits or Surplus. Inquiry should also be made as to whether taxes have been paid to date and whether the title of the borrower is clear and free from all encumbrances whatsoever.

Buildings

I assume that wherever a loan of any size is contemplated the Banker will pay a visit to the Plant and assure himself that the Buildings and Machinery are in good state of repair; are adequate and suitable for the business and so on. So far as the Balance Sheet figures are concerned, he should ascertain that a reasonable depreciation has been reserved for and should certainly not be put off with the time-worn excuse that "the Appreciation of the Land is looking after the Depreciation of the Buildings," the profit from the appreciation in the value of land is not a realized profit and in fact, may never be realized, certainly not while the concern carries on business at the old stand, whereas the loss due to depreciation and obsolescence is a real one and is accruing from day to day. This truth was not revealed to the business men of this country in all its beauty and utility until the advent of the Business Profits War Tax Act.

If the buildings have been revalued the increment in value, if set up in the books at all, should appear in a Special Reserve and not be included in Profit or Surplus Account.

Plant and Machinery

From a Banker's point of view this asset must be of very little value, so long as the concern is making profits the machinery will

possibly be worth its book value or thereabouts, but directly profits cease and it becomes necessary to realize the fixed assets of the borrower to liquidate bank loans, the machinery will in all probability be only worth scrap value. In too many instances the Plant and Machinery Account of a manufacturer is a meaningless jumble of figures, the total of which may or may not represent the value of the actual physical asset—the original cost will be charged to this account, subsequently a particular unit may be scrapped and the salvage money received and credited, leaving the bulk of the original cost of the scrapped unit in the Asset Account; later on a similar unit is purchased and may, if times are bad and profits small be charged to the Machinery Account.

These and other sorts of entries will go on for years, with the result that can only be termed chaotic—the only remedy is a revaluation and the keeping of a proper classified Plant Register.

It is strange, too, what constitutes Plant and Machinery in the minds of some people. I recollect coming across a credit entry in a plant and machinery Account reading as follows:

Cow died\$75.00

The next entry was a debit one and represented the purchase of a Pump. Whether there was any connection between these two items I do not know, but the combination appeared to me somewhat sinister.

Reserve for Depreciation and Obsolescence should be substantial—the percentage rate varying with the type of Plant and Machinery involved.

Tools

These should be carried at a fixed figure and all renewals written off as an expense.

Patterns, Dies and Drawings

A close watch should be kept on the value attributed to these assets. In a prosperous concern where the Patterns, Dies or Drawings are worth a considerable amount they will appear at a very modest figure, whereas in the case of a Manufacturer who has fallen on hard times very specious arguments will be advanced for carrying one or all of these items at a large and increasing figure.

Office Furniture

Unless standing at a larger figure than would appear to be warranted by the size of the business, this asset will not call for much comment beyond ascertaining that a reasonable amount of depreciation is being written off annually.

Deferred Charges

Details of these should be forthcoming and may consist of Insurance paid in advance, Unexpired discount on Bonds issued, Interest paid in advance, Travellers' expenses and Salaries in connection with next season's business, and so on.

It is perfectly legitimate to carry forward any of the above items, but Bankers will sometimes find other expenses carried forward on one pretext or another, which will serve as a danger signal and will indicate a lack of conservatism on the part of the borrower.

Sinking Fund Investments

Where these occur they will probably be ear-marked for a special purpose and will not be available for the liquidation of the borrower's Bank or trade liabilities.

Goodwill

The conservative Banker will eliminate this asset from his calculations. Goodwill is the most paradoxical of all assets, generally speaking the more valuable it is the lower figure it appears at in the Balance Sheet of a prosperous company, whereas in the case of a concern that is in low water and making little, if any, profit, it will often be found that the value attached to it reaches very imposing figures. Formerly this asset was generally included under the heading—Real Estate, Buildings, Plant Leases and Goodwill. Recent legislation, however, has required its separation from the physical assets.

Whilst goodwill is not recognized by a Banker in the ordinary way, inasmuch as when the company has a real goodwill and is making substantial profits he need not worry about his loan, and, on the other hand, if the loan has become "frozen" goodwill as a realizable asset has ceased to exist—still goodwill may easily be the most valuable asset a manufacturer or trade possesses. Take for instance, that of Pears Soap, Heintz's 57 varieties, Singer's Sewing Machines, The Times Newspaper—not to mention the Toronto Telegram, that residuary legatee of the doctrine "It Pays to Advertise."

Accounts Payable

The best verification of these liabilities is for the auditor to obtain a letter from all houses with which the borrower is doing business, stating the amount owing at the date of the Balance Sheet. A few years ago the request for such verifications would have been tantamount to that of an act of Bankruptcy, but times have changed and this practice is becoming more and more general and is one that should certainly be adopted unless there are very strong reasons against it. Inquiries should be made as to whether any of the creditors are secured by lien or otherwise on any of the assets. It will often be found that machinery and office equipment is so secured.

I think it would be as well for Bankers to obtain a certificate from their customers on much the same lines as the one I have suggested in connection with Inventories.

Notes Payable

Where practicable, outside verifications should have been secured of these by the auditors.

CONSIDERATION OF A BALANCE SHEET

Accrued Liabilities

The proper proportion of all liabilities accruing but not yet actually due should be set up on the books.

Fixed Liabilities

Mortgage on Plant

The terms of a mortgage, especially the due date, should be ascertained.

Bonds or Debentures

The terms of the issue should be seen, special note of the due dates being made and the Banker should ascertain from the auditor that the terms of the Trust Deed are being carried out. The Banker will peruse the Trust Deed from the point of view of finding out the locus standi of the security for the Bank's loan.

Profit and Loss Account

This account will naturally be of the greatest interest to the Banker, inasmuch as the Balance Sheet Assets are merely an inert mass which requires the vivifying power of profits to give them life and enable them to produce the wherewithal to repay Bank advances.

The Banker should, therefore, insist on full statements of profit and expenses, with the latter worked out on a percentage to net sales. The figures, together with the percentages, should be compared with the last three or four years in order to show the trend of the business. Any expenses which show a large percentage increase should be investigated and the reason for such increase ascertained. Inquiries should also be made as to what salaries and bonuses the Management are drawing.

Turnover

The Inventory at the end of the year should be considered in connection with the turnover, the number of times the Inventory will divide into the sales will give approximately the number of times the Inventory is turned over during a year—that is, assuming that the Inventory at the end of year is a normal one.

Surplus

As to what should go into surplus is sometimes a debatable point. My own opinion is that nothing except the most exceptional items should find their way to Surplus Account except through the medium of Profit and Loss Account; that is to say, if the yearly profits of a concern from its inception were added together and from the total arrived at all dividends paid are deducted, the result would be the balance on Surplus Account.

Some business people have a habit of putting all sorts of entries through their Surplus Account, with the result that it is extremely difficult to reconcile the figures of one year with those of another.

Any increase in value of Real Estate or Buildings due to revaluation, should appear in a Special Reserve Account and be kept out of

Surplus, inasmuch as such an increment is not available for distribution of dividends until realized.

Undetermined and Contingent Liabilities

The auditor will have looked into the matter of Contingent Liabilities and will probably have obtained a certificate in connection therewith.

In the case of borrowers who are carrying out, or are contemplating carrying out, extensive plant additions or alterations, the Banker will be well advised to inquire carefully into the plan of financing same and be assured that such operations are not going to cripple the borrower in respect to Working Capital and thus obliging him to lean on his Bank more than he should.

The Banker will find out whether an estimate for Income Tax has been included in the accounts or not. Personally I am rather in favor of leaving it out of the accounts until actually assessed, inasmuch as it is not in the first case an expense of the business, but a division of the profits when ascertained—part of the profits going to the Government and part to the business.

The borrower may possibly have entered into contracts for the purchase of material for future delivery, or he may have contracted to supply goods at a certain price for future delivery. Both these features should be considered by the Banker as a change in market conditions may result in making these contracts extremely onerous ones. Of course a change in market conditions may have an exactly opposite effect, with the result that the contracts may prove to be extremely profitable. Should such be the case it will probably be unnecessary for the Banker to make any very extended inquiries as the borrower will elaborate on this state of affairs with very little encouragement from his Banker.

Fire Insurance

Inquiry should be made as to sufficiency of insurance to cover Inventories, Buildings, Plant and Machinery, special attention being directed to any co-insurance stipulation in the policies.

Conclusion

These, Gentlemen, are some of the points that you will consider when you have the Balance Sheet of a borrower before you. Judging from my experience of Bankers I feel that I am preaching to the converted, or to use another metaphor, that I am in the position of "bringing coals to Newcastle"; however this may be I am certain that the closer scrutiny you give the Balance Sheets of your customers the better it is for you and your shareholders, the better it is for those borrowers who are worthy of credit, and the better it is for the business community as a whole.

AMALGAMATION SCHEMES : FROM AN ACCOUNTANT'S
POINT OF VIEW. *

BY ARTHUR E. CUTFORTH, F. C. A.

The old saying that "unity is strength" is as true of businesses as it is of nations. And while during the course of the war the Allies found that in complete co-operation lay the road to victory, so in the financial and industrial world business men have—especially during the last few years—become increasingly alive to the advantages to be obtained from a pooling of resources. In fact, we can hardly open our daily paper without reading of some merging of business interests—of undertakings which have been engaged in rivalry agreeing to co-operate in future instead of to compete.

Undeniably, there is much in competition that is healthy, but, undeniably also, competition may be wasteful. On the one hand of course, the formation of trusts which are in a position to "corner" commodities or services and so force up the price of either against the consumer or the user is to be deprecated, yet, on the other hand, any form of co-operation which, by avoiding duplication of effort, will produce the same commodity or render the same service more economically cannot but be of benefit to the community as a whole, provided, of course, that the profit earned is not excessive.

In case any of you should at this stage be wondering whether you are to listen tonight to a paper on political economy, I hasten to set your minds at rest.

I only propose to deal with the question of amalgamations and other methods of merging interests in so far as we, as professional accountants, are concerned with them—and the way in which we are concerned with them is, of course, through our clients who own businesses or undertakings which can profitably be merged with others. Sometimes our clients ask us to outline possible schemes of amalgamation; sometimes they ask us to comment on schemes which have been put before them by the owners of other concerns or by third parties; and sometimes, where a scheme has already been agreed to, we are instructed to verify the figures or to make the calculations upon which the terms of the merger are based.

And here I must digress for a moment to answer another question which I think may have arisen in your minds. I expect that many of you are articled clerks with a limited amount of practical experience in accountancy and financial matters, and with examinations looming large in the future. You may therefore feel that if a client consults your firm about an amalgamation scheme, the partners would not ask you to assist in the inquiry and subsequently to draft a report on the

* A paper read before the Chartered Accountant Students Association of London, October 22nd, 1919.

matter; and you are probably right. You may also think that questions on amalgamation schemes do not frequently find their way into exminataion papers; and that, too, is true enough. You may, therefore, come to the conclusion that "sufficient unto the day is the evil thereof," and that it is better first to meet the ills you have before flying to others that you know not of. If this is your point of view, however, I would ask you to change it.

In the first place, there is nothing particularly complex or subtle about amalgamation schemes. They are not the product of any specialized knowledge, they are merely evolved by common-sense reasoning and by the application of very ordinary principles, with many of which you are already familiar, though you may not realize it. Then, in the second place, very many of the points which require to be considered in the framing or the criticising of amalgamation schemes are points which arise almost daily in other branches of professional accountants' work. For example, you will appreciate that any scheme of amalgamation or merger involves the valuing of the assets or the measuring of the earning capacity of the businesses concerned, in order to give each business its fair share in the future combine or pool. Now, a critical review of the assets and liabilities of a business means a scrutiny of a Balance Sheet, and this is what we do every day, though for another purpose, when we are completing an audit. And a measuring of the earning capacity of a business entails a careful review and comparison of the detailed Profit and Loss Accounts of a series of past years; and here, again, we are on familiar ground, as it is usual at the termination of an audit to look carefully through the various revenue and expenditure items in the Profit and Loss Account, and to compare them with those of past years in order to see whether any marked differences occur which call for inquiry or explanation.

Then, once more, a client may ask us to look at the accounts of a business which he is thinking of purchasing; and the very process by which we endeavor to compute the value of the business for the purpose of reporting to our client is the same as, or similar to, that by which we should measure the value of that business under an amalgamation scheme. One could quote many more examples, such as, for instance, the certification of profits for prospectus purposes, or the investigation into the accounts of a business on behalf of a prospective lender of money, but I will not labor the point further. All these branches of our work involve an analysis and critical review of assets, liabilities, and profits, and the more experience we can gain in this connection the better, whether it comes to us in auditing Balance Sheets or dealing with amalgamation schemes, or certifying profits for prospectus purposes, or assisting in the valuation of businesses.

Before I proceed any further I ought to say that in many instances the businesses which are to be merged are already owned

by limited companies, and as it is almost invariably the case that if a permanent amalgamation takes place it is effected through a company which will own or control the businesses in question, I am assuming tonight that we are dealing with limited companies throughout—both before and after the merger. I shall also assume, for the sake of simplicity, that we are considering mergers of two concerns only, and not more.

I now come to the forms of merger themselves.

There are various ways in which mergers can take place: under some schemes the profits of the businesses are merged, but not the assets; under some schemes the merger is permanent, while in others it is temporary. I shall only deal tonight with three forms of merger, which three are, I think, the most usual.

The first is the entering into of a pooling agreement whereunder the future profits of the two businesses for a term of years are, in effect, first brought into a common fund and then divided out in certain proportions.

The second is an arrangement whereby one of the companies purchases the whole or a controlling interest in the share capital of the other company—or, alternatively, where a new limited company is formed to purchase the whole or a controlling interest in the share capitals of each of the existing companies.

The third is a scheme whereunder both businesses are placed under the direct ownership of one limited company. This would be effected either by a new company being formed to acquire the businesses of the existing companies or by one of the existing companies purchasing the other company's business.

For the sake of brevity I shall refer to No. 1 as "The Pooling Agreement," to No. 2 as "The Holding Company Scheme," and to No. 3 as "The Complete Amalgamation."

I will now describe, as briefly as I can, each of these forms of merger in turn, outlining in each case the means by which the merger is carried out, commenting on its advantages and disadvantages as compared with the other forms of merger, and dealing in particular with the points in which accountants are especially interested.

Firstly, then, we have to consider the Pooling Agreement.

As I have already mentioned, a Pooling Agreement is one which provides for the profits of the two companies for a future term of years being brought into a common fund and then redistributed in certain proportions. For instance, the two companies, which we will suppose have in the past been keen competitors, ascertain that their past profits (taking the average figures of a series of years) have been in the ratio of three to two. They may then sign an agreement under which for, say, the next five, ten, or twenty years, their annual profits shall first be added together and then be divided in the ratio of three to two—that is to say, the first company will take three-fifths

and the second company two-fifths of the combined profits. The companies may, of course, agree upon the proportions in which their combined profits are in future to be shared without making any exact calculations as to what their past profits were; but it is in my experience usual for them first to agree upon the exact series of past years which are to form the basis for arriving at their respective proportions of the combined future profits and then to ascertain what were the exact profits earned in that series of years. The Pooling Agreement itself need not quote the proportions; it could merely state that the future combined profits were to be divided in the ratio which the average profits of Company A, for, say, the past six years, bore to the average profits of Company B for the same six years.

When once the Pooling Agreement has become effective, the companies can, to a considerable extent, work their businesses in unison with each other instead of in competition. For instance, they would not bid against each other for raw material; one company would not spend money in pushing the sale of its products in districts where the other company already held a commanding position; one company would not refuse orders for sales merely because its own factory had reached its maximum output capacity, if part of the work could be carried out by the other company's factory. These are, I think, a few of the various directions in which the Pooling Agreement might be beneficial to both companies.

Of the three forms of merger which we are to consider, that by means of a Pooling Agreement is attended by the least expense and creates the least initial disturbance. Neither of the companies has to change its form or constitution in any way; the directors of each company merely pass a board minute authorizing the agreement to be entered into. In fact, the shareholders may be unaware of the arrangement, except that where it can be done without any prejudice to the businesses the directors would certainly be well advised to inform the shareholders and obtain their formal assent, as the step taken is an all-important one.

As you will readily understand, the carrying out of the Pooling Agreement entails a considerable amount of skilled work on the part of accountants, both in regard to ascertaining what are the exact profits of each company for the series of past years which are to form the basis for fixing the proportions in which the future profits are to be pooled, and also in regard to arriving at the exact profits of each future year which each company has to bring into the pool. It is usual for each company to be represented by a firm of accountants who prepare the statements of its profits, which are then checked by the firm of accountants acting on behalf of the other company; and the two accountants then sign a joint letter or certificate which deals with the profits of both companies. Each company is, of course, interested in making its profits for the past, or basis, period appear as

high as possible, as, the higher they are, the larger proportion will that company receive of the pooled profits during the period over which the pooling arrangement extends. When, however, the profits of each year of the pool period have to be arrived at, each company is interested in making its profits appear as low as possible, for, the lower they are, the less is the sum which that company has to contribute to the pool. As you know, the term "profits" is a somewhat elastic one, and, in view of the contentious questions which may arise in interpreting it for the purpose of Pooling Agreements, it is usual for the agreement to define very clearly how the profits are to be arrived at. For instance, there would be expressly laid down the manner in which the charge for depreciation of fixed assets was to be calculated. Then, again, the basis on which stock-in-trade must be valued would be clearly defined, as this has a direct bearing upon the profits. Again, it is not unusual to place limits on the sums which each company can charge in respect of directors' fees and managing director's remuneration in arriving at the profits to be pooled—especially in cases where the directors may be large shareholders. You can quite appreciate the necessity for this, as if a company had a free hand it might pay away unduly large sums as fees to directors who, through their shareholdings, were really owners of the company, knowing that its contributions to the pool would thereby be lessened—in other words, the other company would, in effect, be made to bear a proportion of these abnormally high fees. Another class of expenditure which may be made the subject of a special provision in a Pooling Agreement is expenditure on advertising. As you know, it not infrequently happens that a portion of advertisement expenditure is held up as a temporary asset instead of being written off to Profit and Loss Account, if the expenditure can be shown to have been incurred for the benefit of trade in future years. If a company were unrestricted in this respect in a Pooling Agreement which covered a limited period only, it would obviously be to its advantage to spend largely on advertising during the period and to write off the whole of the expenditure to Profit and Loss Account each year before arriving at the profits to be contributed to the pool. In this manner the other company would be made to bear a certain proportion of the expenditure, while any benefit arising from this advertising, after the period of the pool had ended, would, of course, accrue to the advertising company only.

Another matter which has to be taken into account in the ascertainment of the exact amount of the profits to be contributed to the pool by each company is that of the capital employed in each business. If, during the time the pooling arrangement was in force, neither company raised any fresh capital and both companies distributed in dividend the whole of the profits which they received from the pool, then no complications would arise. As a matter of fact, however, such a convenient state of affairs does not exist in practice. One

company may, for instance, desire to extend its works, and for this purpose it may either decide to raise additional share capital or to retain in its business the profits which it would otherwise have distributed in dividend. It would be very unfair to such a company if, having made this expenditure, it still had to hand over to the pool the whole of its profits—assuming, of course, that the other company had made no similar expenditure. It is therefore necessary to provide, in a Pooling Agreement, that, before arriving at the profits which each company has to hand over to the pool, that company may deduct a sum representing interest at a certain rate (say, for example, 7 per cent.) upon any capital employed by it during the year over and above the capital employed at the time when the Pooling Agreement was entered into.

I remember being concerned, some ten or eleven years ago, with a Pooling Agreement which was then entered into between two very large manufacturing companies which owned businesses in this country, Germany, Holland, and in Belgium—my firm acting for one of the companies and your chairman's firm acting for the other company. Quite a number of contentions arose, but, so far as my recollection goes, we were able to settle them to our mutual satisfaction without having to report to our respective clients that we could not come to an agreement. The position was further complicated in this particular instance by reason of the fact that there were certain departments of each business, the profits of which were not to be pooled at all, so that we had very carefully to separate out the profits to be pooled from the profits which were not to be pooled, and in so doing we had, of course, to apportion the administrative and general expenses between the two sections. Again, we had to discriminate carefully between the capital employed in the sections of the businesses whose profits were to be pooled, and the capital employed in the sections whose profits were not to be pooled. The matter was not made any easier by reason of the fact that the books in Germany were, of course, in German, the books in Belgium were in French, and the books in Holland were in Dutch. I am sure that I must have aged very considerably during the two or three months that the investigations into the figures were in progress!

As I have already mentioned, one of the advantages of a Pooling Agreement is that it involves little expense or initial disturbance. There may possibly be considered to be another advantage in the fact that the arrangement is a temporary one, and that, when the term of years fixed by the agreement is over, each company is free to break away and become independent of the other.

On the other hand, it may be urged—and I think with a good deal of force—that the very fact that the Pooling Agreement is not, by nature, permanent is objectionable. Each company is apt to look beyond the period covered by the agreement and to consider its own

interests alone, and not those of the other company ; and this point of view is often fostered when the yearly ascertainment of the profits falls to be made and a number of contentious questions have to be dealt with.

The view is very commonly held—and I think it is a sound one—that if businesses are prepared to enter into very close co-operation for a reasonably long term of years, such as would be the case if they pooled their profits, they should go a step further and make the arrangement permanent, and one under which assets as well as profits would, in effect, be pooled ; in other words, the businesses should either continue entirely as separate entities or place themselves unreservedly in each other's hands. Temporary marriages are not in favor—at least, not in this country. One might put one's advice in a nutshell and say, colloquially, "Keep out altogether or go in with both feet."

So much for the Pooling Agreement. I now come to the second of the three forms of merger—namely, the Holding Company scheme—which, as I have already mentioned, is a scheme whereunder one of the companies buys the whole of, or a controlling interest in, the share capital of the other company, or, alternatively, where a new company is formed to purchase the whole of, or a controlling interest in, the share capitals of the two existing companies. The procedure to be adopted and the attendant advantages and disadvantages are very similar in either event, so that it will suffice if we consider the latter alternative—namely, that whereunder a new company is formed to purchase the shares of the two existing companies.

You will note that, under the Holding Company scheme shares and not businesses are being bought and sold. There is, therefore, no change in the constitution of the existing companies, each of which continues as a company to own and manage its business as before. What does happen is that the individual shareholders of each company give up their shares to the holding company in exchange for the shares of the holding company ; and thus, instead of being interested in the assets and profits of one company only, each shareholder in future becomes indirectly interested in the assets and profits of both companies, as he holds shares in the new company, which itself holds the shares of both the existing operating companies. The holding company is merely an investment or trust company, and its sole functions are to receive the dividends declared on the shares which it holds in the operating companies and to distribute them as dividends among its own shareholders.

As soon as the holding company has become the sole or the dominant shareholder in each operating company, it can, by the exercise of its voting rights, appoint and remove the directors of the operating companies and can thus control the policy and management of such companies. The result is that the boards of the two operating companies, though still preserving their separate entities, work in

harmony with each other, and, in fact, there would, in all probability, be members common to both boards ; the businesses abandon wasteful competition with each other, and disclose to each other the whole of their methods and organization to their mutual benefit ; and by degrees all or most of the advantages accrue which would be reaped had the businesses themselves been merged in one, or their profits pooled.

As I intimated above, it is not necessary for the holding company to own the whole of the share capital of the existing companies ; a controlling interest will suffice. But in cases where the whole of the capital is not so held, and there are in consequence other shareholders in the operating companies, the directors of each operating company must be particularly careful to avoid taking any step which, though it may be of advantage to the two operating companies as a whole (and, therefore, to the advantage of the holding company), may be detrimental to their own company, and may, therefore, prejudice the outside shareholders. It is true that the outside shareholders would be in the minority, and so could not obtain redress at a general meeting of the operating company, as they would be out-voted ; they have, however, the right to make application to the Court, and the Court would see that their interests were properly protected. In cases where the control of the operating companies rests with the ordinary shareholders, and where there are preference issues which it is not desired that the holding company should purchase, it is not unusual for the holding company to guarantee, to the extent to which it may have income available for the purpose, the due payment of the fixed preference dividends of the operating companies. If, for example, the holding company—through its control of the operating companies—so managed the businesses as to divert the profits from one company to the other, one of the operating companies might find itself with insufficient profits to enable it to meet the dividend on its preference shares, while the other operating company might be earning large profits and distributing large dividends on its ordinary shares, which would be owned by the holding company. In such a case the holding company would, under its guarantee, make up the dividend on the preference shares of the defaulting operating company before paying any dividend on its own capital.

A Holding Company scheme has an advantage over a Pooling Agreement in that it effects what amounts to a permanent merger of interests. At the same time the two operating companies exist as before, each with its own board, its own staff, its own registered offices, and its own books.

You may ask at this stage "If the interests of the two businesses are, in effect, permanently merged under a Holding Company scheme, why not carry the matter a stage further, and, instead of forming a holding company, let one of the operating companies acquire the

business of the other, or, alternatively, let each operating company sell its business to a new company and then be voluntarily wound up—so that in either event there would only remain one company which would own both businesses, thus avoiding duplication of boards, staffs, registered offices, books, &c. ? ”

If each of the operating companies has only one class of share capital—that is to say, ordinary capital, and has no debenture capital, then the probability would be that a complete amalgamation of the businesses as such would, on balance, be found to be the best means of merging interests. But, in practice, one finds that in many cases there are preference share issues or debenture issues, or both, and that these issues have been made at what are today regarded as low rates of interest or dividend. Under a scheme of complete amalgamation, one or both of the operating companies would be liquidated, and, as a result of the liquidation, the debenture-holders and preference shareholders would have the right—under the debenture trust deed and articles of association respectively—to be paid off at par or even at a premium, whereas the current value of their securities might be very much under par. In theory, the value of a company's business should be equal to the combined current values of its securities; and if a part of the purchase price paid for that business is applied in paying to certain security holders (namely, debenture-holders and preference shareholders) an amount which is in excess of the current values of their holdings, it follows that the balance available for the remaining security holders (namely, the ordinary shareholders) would be less than the current value of their holdings.

Let us take, for example, the case of a company having £100,000 4 per cent. debenture capital, £100,000 5 per cent. preference share capital, and £200,000 ordinary share capital, and let us assume that the profits are sufficient to pay a dividend of 10 per cent. on the ordinary shares, or a little more. Under present-day money conditions, the 4 per cent. debentures might be worth 70 per cent. of their nominal value, the 5 per cent. preference shares 75 per cent. of their nominal value, and the ordinary shares par. The real value of the whole of the debenture and share capital would then be £345,000 (namely, £70,000 for the debentures, £75,000 for the preference shares, and £200,000 for the ordinary shares). The ordinary shareholders would have the control of the company, and it would be for them to decide, assuming that a scheme for merger of interests with another company was under consideration, whether they should agree to a Holding Company scheme under which they would sell their ordinary shares to a holding company or to a scheme of complete amalgamation whereunder their company's business would be sold to a new company. Under the Holding Company scheme they would receive in exchange for their shares shares in the holding company of the value of £200,000. But if they were to consent to a scheme for

complete amalgamation, then their company's business would be sold for its true value, which, you will remember, was assumed to be £345,000, and the liquidator of the business would have this £345,000—either in cash or in securities of that value—to distribute among the debenture-holders, preference shareholders and ordinary shareholders of the vendor company in accordance with the provisions of that company's debenture trust deed and articles of association. If the debenture trust deed provided for the debentures being repayable at par in the event of a liquidation, then the debenture-holders would receive £100,000 of the £345,000; and if the articles of association provided for the preference share capital being repaid at par on a liquidation in priority to the ordinary capital, then the preference shareholders would also receive £100,000 out of the £345,000. Between them, therefore, the debenture-holders and the preference shareholders would absorb £200,000 out of the £345,000, leaving only £145,000 to come to the ordinary shareholders, the real value of whose capital (on the basis of the existing company continuing to carry on its business as before) was £200,000. You will therefore see that, in this particular instance, a Holding Company scheme would be far preferable to a scheme of complete amalgamation, as under the former the ordinary shareholders would receive shares to the value of £200,000, whereas under the latter they would only receive shares to the value of £145,000. The debenture-holders and preference shareholders would, of course, be very much better suited by the scheme of complete amalgamation, as this would involve the liquidation of the company, thereby entitling them to be paid off at par; it must be remembered, however, that they have not the control of the company, and, therefore, have no power of enforcing a liquidation, and there is no reason whatever why the ordinary shareholders should accept a scheme whereunder these holders of prior securities would receive a present of the difference between the current market value and the nominal value of their holdings.

So you see that in cases where companies have debenture issues and preference share issues at low rates of interest, a Holding Company scheme does offer very material advantages to the ordinary shareholders as compared with a scheme of complete amalgamation.

Another point in favor of a Holding Company scheme is that it does not entail, as does a scheme of complete amalgamation, the calling of meetings of the companies to obtain the shareholders' consent to liquidation, and it avoids, of course, the trouble and disturbance of the liquidation itself, involving the cancellation of tenancy, service, and other agreements with the old company and the entering into fresh agreements with the new company on possibly less advantageous terms. It not infrequently happens that the preference shares of an industrial company are in the hands of the public, whereas the ordinary shares are in the hands of quite a few

members of one or two families. If the business of the company is sold, as would be the case under a scheme of complete amalgamation, the preference shareholders would probably have to be called together and their consent obtained to the liquidation and to the terms of the sale, and, later, their share certificates would all be called in and fresh certificates in a new company issued to them. If, however, it is merely the ordinary shares of the company which are being sold, the few ordinary shareholders may meet informally and agree the terms, and in due course hand over their share certificates in exchange for the share certificates of the holding company.

There is one other direction in which a Holding Company scheme is often preferable to a scheme of complete amalgamation and that is as regards expense. One of the heaviest expenses in each case is that of stamp duties. There are two classes of stamp duty payable in such instances—namely, the duty on the transfer of an asset, and the duty on the share capital of the new company; and the duties are in ratio to the amounts involved. Under the complete amalgamation scheme it is the whole business of the operating company that is sold, and, therefore, it is probable that the figures involved will be larger than in the case of the Holding Company scheme, where only a portion of the total share capital of the operating company (namely, the ordinary share capital) may change hands. The total stamp duties are, therefore, likely to be considerably heavier under the scheme for complete amalgamation than under the Holding Company scheme.

So much, then for the advantages of a Holding Company scheme.

Assuming that the interested parties had made up their minds that a Holding Company scheme was, in principle, the most acceptable under the particular circumstances of their case, the next question for them to consider would be the value to be attributed to the shares of the two operating companies which would be sold to the holding company. If the shares had a market quotation and if each set of shareholders was satisfied that the market quotations constituted a true reflection of real values, then the two sets of shareholders might be able to agree the prices between themselves. If, however, as is frequently the case, the shares have no market quotation, or if there are market quotations but such quotations are not a fair indication of real values, then in all probability the shareholders will have to be content to sign an agreement fixing the basis upon which the shares are to be appraised, leaving the actual valuation to be made in accordance with such basis at a subsequent time.

It will be evident to you that in an ordinary case the only method of arriving at the value of the ordinary shares of a company is to value the whole of the assets of the company (including the goodwill of its business, if there is a value in the goodwill), and to deduct therefrom the total of the liabilities of the company. The excess of the value of the total assets over the liabilities represents the value

of the share capital, and (if there are preference as well as ordinary shares) it then becomes necessary to apportion this value as between the two classes of shares in order finally to arrive at the value of the ordinary shares.

Now, it is necessary under a scheme of complete amalgamation to value the whole of the assets of the companies in just the same way, and to deduct therefrom the liabilities; though it is not necessary, from the new company's point of view, to apportion the value as between the preference and the ordinary share capital of the old company, seeing that it is the old company's whole business which is being sold, and not merely the ordinary share capital of that company. I will, therefore, defer any remarks upon the method of valuing the companies' businesses until I comment on the last of the three schemes we are considering to-night—namely, a scheme of complete amalgamation. All that I need refer to at the moment is the method of apportioning the value of an existing company's business between the preference and ordinary share capital of that company, as would be necessary under a Holding Company scheme, where only the ordinary capital would pass to the holding company; and the only comment I need make on this is that the preference share capital would not necessarily be valued at par or at the amount which that class of shareholder would receive if the company were to go into liquidation. Under the Holding Company scheme the company does not go into liquidation, but carries on its business as previously; and its preference shares would be valued on such a basis, that is to say, regard would be had to the degree of security they enjoyed both from a capital and also from an income point of view. For example, if one had to consider the case of a 5 per cent. cumulative preference share of £1 in a company carrying on an industrial business of a stable character, repayable in the event of a liquidation at 25s., covered, say, twice over by "tangible assets," and covered from an income point of view, say, three times over, one might value such a share at anything between 18s. and 16s. Having regard to present money conditions it certainly could not be valued at par, and still less could it be valued at the sum which it would receive on liquidation—namely, 25s.—as liquidation would not be contemplated.

We now come to the third and last scheme, which I have called the Scheme of Complete Amalgamation. Under this scheme one of the companies sells its business to the other company, or else both companies sell their businesses to a new company which would be formed to acquire them. Under the first alternative, only one of the companies (that is, the selling company) goes into liquidation, while the purchasing company continues as before, except that it is, of course, enlarged as a result of the acquisition of the other company's business. Under the second alternative both companies go into liquidation and their place is taken by the new company, which has

bought both their businesses. The first course would very likely be adopted in cases where one of the companies has a considerable amount of debenture or preference capital at a low rate of interest. This company would be made the purchasing company, and it would issue to the other company additional share capital as consideration for that company's business, without rendering its own debenture and preference issues liable to be repaid at par or at a premium, as would be the case if it also went into liquidation and sold its business to a new company. Another advantage in arranging for one company to sell its business to the other is that the expenses in the shape of stamp duties would be considerably less than if both companies were to sell their businesses to a new company.

In cases, however, where the businesses owned by a number of companies, and not two only, are to be amalgamated it will probably be found preferable to form a new company to take them all over, instead of using one of the existing companies as the purchaser of all the other companies.

I think it will simplify matters if we merely consider this evening the case of two companies which sell their businesses to a new company which has been formed to acquire them. But before entering into the details of the scheme itself, we have to ask what are the advantages which a scheme of Complete Amalgamation enjoys and which neither a Holding Company scheme nor a scheme for pooling profits reaps.

Firstly, I think there is the advantage that when once the amalgamation is consummated there is only one company, one board of directors, one staff, one organization. All these things make for simplicity and convenience. Secondly, all interests are fully and permanently merged; there is no question of contentious points arising each year as between the two parties, as might be the case with the Pooling Agreement; nor are there any outside parties whose interests require to be watched and protected, as might be the case with the preference shareholders of the two operating companies under the Holding Company scheme. Thirdly, it is not unlikely that the one company would be able to raise fresh capital more cheaply from time to time in the future than the companies as separate entities would be able to do under the Holding Company scheme or the Pooling Agreement arrangement. Fourthly, the shareholders in the new company under the complete amalgamation scheme would probably be able to obtain a somewhat better price for their shares when they wanted to dispose of them than they would do as shareholders in the original companies or in the holding company. And, lastly there is the possibility that although many of the advantages of a merging of interests would be obtained under a Pooling Agreement and under a Holding Company scheme, they would not be reaped to quite the same full extent as would be the case under a complete amalgamation.

Perhaps I have already covered this point in calling attention to the convenience of having one board, one staff, and one organization, but it will, I think, bear repetition.

We now come to the means by which the scheme is carried out. The first official step is for the directors of each company to call the shareholders together and obtain their consent to the amalgamation. But, as you will realize, this involves placing before the shareholders details of the proposed scheme, including, of course, particulars of the basis of valuing each of the businesses. What, therefore, happens in practice is that the directors of each company first meet together and agree upon the terms of the scheme, and after such agreement is reached they undertake to recommend the scheme to the shareholders of their respective companies for acceptance.

It is in the drawing-up of a scheme for the consideration of the boards of directors that the services of professional accountants are, as a rule, first requisitioned. We will now, therefore, place ourselves in the position of a firm of Chartered Accountants and assume that we are submitting a report to the boards of two companies outlining a scheme of complete amalgamation whereunder each company will sell its business to a new company which will be formed to acquire both businesses.

The first point which we shall have to consider is that of the date as at which each company might most conveniently sell its business to the new company. This date can either be a past date or a future date, and the suggestion we should make would depend partly upon the dates when the ordinary financial years of the two companies closed and partly upon the extent to which the last Balance Sheet of each company could be utilized in connection with the valuation of the businesses. Perhaps an example can best explain my meaning. Let us assume that one company's financial year ended in the ordinary way on the 30th November, and the financial year of the other company on 31st December, and that we were submitting our report outlining an amalgamation scheme in September 1919; we should then have in our hands the last issued Balance Sheet of each company, dated in the one case 30th November 1918, and in the other case 31st December 1918. And let us assume that, on making inquiries as to the manner in which the Balance Sheets had been prepared we found that in regard to stock-in-trade it had been the practice of one company to omit from its inventories altogether certain stock regarded as not readily saleable, and to consider that the value of this stock would, broadly speaking, off-set certain deterioration which had occurred in other stocks and which was not specifically provided for by any deduction in the stock sheets from the cost of such stocks. Further, let us suppose that in regard to loose tools we found it to be the practice of the other company to hold such tools up in its Balance Sheet at a round sum, instead of making an inventory of the

tools at the date of the accounts and valuing them ; its reasons being that it wished to avoid the trouble of making the inventory and was satisfied that the figure in the Balance Sheet was on the conservative side. We should, I think, come to the conclusion that the records of the two companies as at 30th November 1918 and 31st December 1918 respectively were not sufficiently correct to permit of the assets being accurately valued as at those dates ; and we should, therefore, take the view that the businesses should be valued and pass to the new company as at a future date, say 31st December 1919. In this event the first company would balance its books and prepare its Balance Sheet a month later than usual, namely, at 31st December instead of at 30th November ; while the second company would keep its usual date, namely, 31st December. For the purpose of these Balance Sheets, the companies would arrange for accurate inventories of stocks and of loose tools to be taken, and for the protection of each company it would probably be decided that these inventories should be verified and valued by independent valuers. The figures thus arrived at could then be used in ascertaining the values of the businesses.

Even assuming, however, that the book figures of stocks and loose tools at 30th November and 31st December 1918 could be taken as representing correct values, there would be another objection to taking these past Balance Sheets as a basis for valuing the businesses—namely, that by the time the agreement for the sale of the businesses was signed, there would be nearly another year's profits in each business, less, of course, any dividends which might have been distributed. If I enter into an agreement on, say, the 30th November 1919 to sell you a business as at 31st December 1918, it is true that we both may be able to ascertain from the Balance Sheet of 31st December 1918—coupled with a valuation of fixed assets and of goodwill, to which I shall allude later—what the exact value of that business was at that date ; but what we shall not know at the time the agreement is signed is what have been the profits of the eleven months from 1st January to 30th November 1919 which have accrued in the business. I am giving you those profits, whatever they are, and I shall want to be compensated for them in some shape or form, probably by asking you to pay me interest on the purchase consideration at some fixed rate from 1st January 1919 to the date when the agreement is signed and the purchase money paid. If we can agree a rate of interest between ourselves, well and good ; but you, as the purchaser of a business about which I know everything and you know very little, might well object to this arrangement, as it would mean that you would pay me a fixed sum for the right to certain profits the amount of which you had had no means of estimating with any accuracy.

I have described above a case where all the circumstances are in favor of taking a future date as the date of sale. Under other

conditions, however, it may be found that a past date is preferable. Let us suppose that each of the companies prepared its annual Balance Sheet as at 31st July, in which event we should, in drafting our report in September 1919 outlining an amalgamation scheme, have in our possession Balance Sheets which had only recently been prepared and audited. Let us assume, further, that at the time when the Balance Sheets were prepared neither company had in mind that they would be used in connection with the ascertainment of the values of the businesses, and that each company had prepared complete inventories of stocks and a proper valuation of loose tools.

If we were able—as *prima facie* we would be—to recommend that the businesses be taken over by the new company as from 31st July 1919, we should save the existing companies the trouble of preparing further Balance Sheets, and, assuming that the scheme were adopted by the shareholders and an agreement embodying the basis of the valuation signed on 30th November 1919, many of the figures upon which the valuation would be based could then be gone into immediately, instead of there being a delay of a further two or three months, as would be the case if a special Balance Sheet had to be prepared by each company as at 31st December 1919. It is true that there is still an unknown quantity, namely, the exact profits of the four months from 1st August to 30th November 1919—and that in respect of these each company would have to agree to be credited with interest at a fixed rate on the purchase price of its business when ascertained; but four months is not a very long period, and in view of the other conveniences of adopting a past date as the taking-over date, it is probable that the companies would be quite willing to accept this somewhat arbitrary basis.

We will assume that in the case with which we are dealing each company's financial year ends on 31st July, and that after inquiry as to the records of stock-in-trade and of loose plant and tools, we are able to recommend—in the report which we are submitting in September 1919—that the businesses be acquired as from 1st August 1919, and that the new company shall pay to each vendor company interest on the purchase price of its business from 1st August 1919 to the date when the new company shall issue its shares as consideration therefor. In other words, we shall take as a foundation the Balance Sheets of each company dated 31st July 1919, which will have been recently audited and would be in our hands.

What are our recommendations to be in regard to the method of valuing the various assets of each business as at that date?

Let us assume that neither company has any figure in its Balance Sheet in respect of the goodwill of its business; that each company owns land, buildings, and fixed plant, which it has written down in its books to sum representing considerably less than their true worth; and that the other assets consist of loose plant and tools, stock-in-trade, and work in progress, investments, debtors, and cash.

Firstly, as regards the land, buildings and fixed plant. It is possible that the companies may agree the values of these assets between themselves, or may decide that they can be valued at their original cost, less depreciation at certain rates. If, however, as is not improbable, the values cannot be agreed in this way, the services of an independent expert valuer would need to be requisitioned. The companies would write the valuer a joint letter asking him to make a valuation of the assets in question, and indicating the basis on which the valuation was to be made. For instance, in regard to buildings and plant, they might instruct him to make a valuation on the basis of pre-war replacement costs, or on the basis of present-day replacement costs; the two bases are, as you will appreciate, very different, as buildings and plant now cost two or three times as much to construct or purchase as they did before the war. I should mention here that if the same proportion of the value of the whole business of each company is represented by buildings and plant, then it does not really matter, as between the two companies, whether these assets are valued on a liberal basis or on a conservative basis, as the chief object of the valuation is to arrive at the *relative* values of the two businesses, and not necessarily the actual values of each.

The valuer will make his valuation in the autumn of 1919, but it is to comprise the fixed assets in existence at 31st July 1919; he will, therefore, ascertain—or will ask us to ascertain for him from the books—what fixed assets have been purchased between the 31st July 1919 and the time when he conducts his valuation, so that he may exclude these. If any fixed assets which were in existence at 31st July 1919 have been disposed of between that date and the time of the valuer's visit, they would also require to be included in the valuation; but I think we may take it for granted that neither company would forget to bring any such circumstances to the valuer's notice.

Then, as regards the loose plant and tools, we will assume that we come to the conclusion that the records which each company has maintained of these can be taken as correct, and as representing fair values; we, therefore, make the suggestion that the book figures at 31st July 1919 can be taken for the purposes of the valuation. It might, as you may imagine, be a difficult, though not an impossible, task for a valuer to attend several months after the 31st July 1919 and work his valuation of loose tools back to that date, as there would probably be no record of tools worn out and scrapped during the intervening period—and, as you know, the scrapping of the worn-out tools is of daily occurrence.

In regard to the stock-in-trade, we will assume that each company had prepared at 31st July 1919 a complete and accurate inventory, with a full description of the material and details of quantities or weights. This being the case, it would only be necessary to see that the prices attached to the various stocks were fair as between the

one business and the other. It would not be sufficient to ascertain that the stocks had been priced at cost, less allowances for any depreciated or obsolete stocks ; it would be necessary to be satisfied that if each company held the same classes of stock and in the same condition, such stock was priced at the same figure in each case. It must be remembered that the valuation is for the purpose of determining the price to be paid by the new company for the stock-in-trade of each existing company ; and it is obviously fair to all parties that for the same class of stock the new company should pay the same price to each existing company. The same principle should apply to the raw material included in any work in progress at 30th June 1919 which the new company is acquiring, but in regard to the labor, &c., included in the value of the work in progress, it will probably be sufficient to see that each company has included such costs on the same basis, or, if not, to make the necessary adjustments to bring the figures into line. For example, one company may have included a portion of its establishment charges in the value of its work in progress, whereas the other may have excluded such charges altogether ; in this case the figures of one company would require to be amended in order to make them uniform with those of the other company.

The next asset to consider is investments. If these consist of securities having an active market the question of valuation presents no difficulty, as the market quotation can easily be ascertained. If, however the investments have no market quotation, then special steps must be taken to value them, and it is not unusual in such instances for the amalgamation scheme to provide that the value of the investments is to be arrived at by a firm of independent accountants, whose decision shall be final and binding. The accountants would in such a case call for the Balance Sheets of the particular companies for a series of past years, and for any other relevant data which might be available, and would review the assets, liabilities, and profits. It not infrequently happens that a company holds the whole of or a controlling interest in the share capital of a company carrying on a similar or allied business ; and if this shareholding is a very valuable one, then the accountants may find it necessary to follow exactly the same procedure in valuing the shares in this subsidiary company as is being followed, under the amalgamation scheme, in valuing the shares of the main company—including the employment of valuers to value premises, plant &c.

The valuation of the book debts does not present any material difficulty as the debts are in effect valued at what they ultimately realize. By the time the valuations of the various other assets are complete, the great majority of the book debts outstanding at 31st July 1919 would probably have been collected, and in view of this both the companies would probably be agreeable to a clause being inserted

in the amalgamation agreement to the effect that the book debts of each company at 31st July 1919 were to be valued at a sum equal to the total amount collected in respect thereof from 1st August to 30th November 1919, plus such sum as a firm of independent accountants might certify as fairly representing the value of any debts contracted up to 30th June 1919 but uncollected by 30th November 1919.

The only remaining asset (other than goodwill, to which I shall refer in a minute or two) is cash at bankers and in hand—and no question arises on the valuation of this.

By the means I have described above we should provide for the valuation of all the assets of each business at 31st July 1919, exclusive of goodwill. In regard to the liabilities at 31st July 1919, the scheme would probably proceed on lines similar to those on which the value of the books debts was arrived at; that is to say, the figures of liabilities appearing in the Balance Sheet would not be accepted as final, but the exact amount of the liabilities would be ascertained in the light of the subsequent payments in discharge thereof. In other words the vendor company would agree that if any liabilities were ultimately found to have been omitted from the Balance Sheet, they would have to be brought into account in valuing the business.

If from the total of the values of the assets at 31st July 1919, ascertained in the manner I have described, there is deducted the total of the liabilities at the same date, the value of the business is arrived at, assuming that there is no value in the goodwill. If there is a value in the goodwill, it must be computed and brought in. How are we to suggest that it should be ascertained or measured?

Goodwill has, I believe, been defined as the benefit arising from connection and reputation. If the actual or prospective earnings of a business do not represent anything more than what may be called a commercial return on the capital actually employed in that business, goodwill cannot be said to exist. If, for instance, I inaugurate an engineering business, and purchase premises and plant and provide the necessary floating capital, and if after the business has become fully developed it does not earn, and seems to have no prospect of earning, anything more than, say, 7 per cent. or 8 per cent. on the capital I have sunk in it, I cannot, if I want to sell that business, ask a purchaser to pay me for it anything more than I have put into it—in other words, there is no value in the goodwill. The value of the goodwill of a business may, then, I think, be defined as the capitalized value of what may be called the anticipated “super-profits” of that business—that is to say, the capitalized value of the profits in excess of a figure representing a fair commercial return upon the capital employed in the business.

Now, in order to estimate the anticipated profits of a business, we can only, in the great majority of cases, base our calculations upon past results. Therefore, in order to arrive at the value of the goodwill

of a business, it is usual to select a series of past years the results of which it is thought may fairly be taken as indicative of the future, and to ascertain the average capital employed in the business during those years and the average profits earned in such years. After deducting from this average figure of profits a sum representing what is thought to be a fair commercial return upon the average capital employed, there remains a figure representing the average super-profits—and a certain number of years' purchase is applied to this figure, and the result is taken to be the value of the goodwill.

In the report which I assume we are submitting we shall have to make suggestions, firstly, as to the exact series of years which should be taken as a basis; secondly, as to what percentage should be regarded as representing a fair commercial return upon the capital employed; and, thirdly, as to how many years' purchase should be applied to the figure of "super-profits."

As regards the series of years to be taken as a basis, we cannot, of course, make a suggestion without reviewing in a general way the financial results of each business for, say, ten or so past years, and considering to what extent the results of each year can be taken as indicative of the future. Before the war one found that in the majority of cases the series of years taken varied between three and six, that is to say, between the last three and the last six financial years completed prior to the amalgamation. Nowadays, however, the position is complicated by the fact each of the last five financial years includes a war period, and, as you know, the war has influenced profoundly the financial results of nearly every business, to the benefit of some and to the detriment of others. Too much importance should not, therefore, be attributed to the abnormal profits of a period which is certainly exceptional, and, we will hope, unique. We should therefore, probably conclude that it would not be fair to take war years only, and our choice would, therefore, lie between pre-war years only, or a period including both pre-war and war years; in this latter event we should presumably have to take into account the results of eight or ten years altogether. Very much would depend upon the nature of the businesses, the trend of their profits, and the manner in which such profits had been earned.

The next matter upon which we have to advise is that of the percentage which should be taken as representing a fair commercial return upon the capital employed in the business. Here, again, a good deal might depend upon the character of the businesses and the nature of the capital employed in them. I think we should be safe in assuming that it would be very unlikely that we should in these days suggest a rate under 7 per cent.; and I think the probability would be that our rate would not exceed 10 per cent.

There remains the question of the number of years' purchase to be applied to the "super-profits," that is to say, to those profits in

excess of the profits representing the commercial return on the capital employed. Here it is impossible to lay down any rules or even to fix upper and lower limits ; everything depends upon the character of the businesses and their past history. If the businesses are inherently of a stable character, have been profitably carried on for a great number of years, and do not depend, for their present success, upon the skill or enterprise of one or two men only, then it is obvious that a higher number of years' purchase could be applied to the "super-profits" than if the businesses were of a speculative nature, were largely dependent, perhaps, on the caprice of the public, or if they were specially affected by fluctuations in prices of raw material, or if they owed their success to the personal influence or the personal skill of a particular director or manager. I think, however, it would be correct to say that in the majority of cases the number of years' purchase applied to the "super-profits" will be between four and eight.

You will appreciate that the calculations necessary in order to arrive at the average capital employed in a business during a series of years, and the average profits earned during the same years, will not, or may not, be very simple. It is usual for the amalgamation agreement to lay down the general lines on which the capital and the profits are to be calculated, and to provide that a firm of independent accountants shall inspect the books of each company and prepare or check the necessary statements embodying the calculations. It would further be provided that if any difference of opinion should arise between the companies as to the manner in which any items should be treated, the matter would be referred to the independent accountants, whose decision would be final and binding upon both companies.

In computing the average capital employed during each year, the mean could be taken between the figures at the beginning and end of the year, suitable adjustments being made in respect of any fresh capital introduced or dividends distributed during the year. In other words, the accretions to capital by reason of the profits earned during the year would be treated as accruing evenly over the year. Nothing would be included in the capital in respect of goodwill. The figures utilized in respect of premises, plant, &c., would not necessarily be the amounts at which such assets happened to stand in the books of the businesses during the period in question ; the fair value of these assets would be taken, and this fair value would be arrived at by taking the valuer's valuation of these assets as at the date of amalgamation and working back from the valuation figures by taking into account additions to these assets during the intervening time, and also by taking into account depreciation at such rates as the valuers might certify to be fair and reasonable. In other words, the Ledger Accounts relating to land, buildings, and plant would be reconstructed right from the commencement of the period of which the profits are to be taken as the basis for arriving at the value of the goodwill. You will see, therefore, that after these various adjustments have been made,

the figures of average capital employed may be very different from what the companies' Balance Sheets may show them to be.

As regards the average profits earned, here again quite a number of adjustments would or might require to be made in the figures as shown by the companies' annual accounts. The profits would be arrived at before charging income-tax, and after charging in respect of depreciation such sums as the independent valuers certify to be in their opinion proper. Any capital expenditure or capital losses written off to Revenue would, of course, be written back ; any items of an extraordinary and non-recurring nature, whether they are charges or credits, would be eliminated. It would probably be considered fair to charge as an expense in arriving at the profits any payments for excess profits duty and munitions levy, though this is a point on which a contrary view may in certain instances be permissible ; one can only arrive at a conclusion after considering the circumstances of a particular case.

I have by no means exhausted the questions which frequently arise in connection with the ascertainment of the goodwill ; but I think I have said enough to give you a general idea of the principles involved. As you will have gathered, the matter is essentially one where the services of skilled and experienced accountants must be utilized, both as regards the framing of the basis and also the working out or checking of the detailed calculations.

Our scheme is now nearly complete. We have dealt with the question of the date from which the new company should acquire the two businesses ; we have described in detail how the businesses should be valued ; and it only remains to comment on the consideration to be given by the new company for the businesses, which consideration is to take the form of shares of the new company.

Let us assume that, under our scheme, the value of business A is found to be £100,000, of which £70,000 is represented by what may be called "tangible assets," less liabilities, and £30,000 goodwill ; and that the value of business B is £150,000, of which £80,000 is represented by "tangible assets," less liabilities, and £70,000 by goodwill. The new company will, therefore, take over tangible assets, less liabilities, amounting to £150,000 (namely, £70,000 from business A and £80,000 from business B), and goodwill, which has been valued at £100,000 (namely, £30,000 in the case of business A, and £70,000 in the case of business B).

On ascertaining these figures we must not immediately jump to the conclusion that the new company will allot to Company A £100,000 of its shares, and to Company B £150,000 of its shares ; that is to say, that it will purchase the business of these companies at the figures brought out by the valuations. As I have already intimated, the main object of the valuations is to arrive at the relative values of the businesses ; and in the instance I have given, the relative values are as

£100,000 is to £150,000, or as 2 is to 3. It would be immaterial, as between the existing companies, whether the total purchase price of both businesses together were £250,000 or £150,000, or £350,000, so long as the total purchase consideration was payable in shares representing the whole of the issued capital of a new company and so long as of those shares Company A received two-fifths and Company B three-fifths. If the total purchase price were fixed at £350,000, as compared with a real value of the businesses of £250,000, then the shares of the new company would not be worth their nominal value; and if, on the other hand, the total purchase price were fixed at £150,000, then the shares of the new company would be worth more than their nominal value. But in each case the real value of the total shares which the new company has to allot would obviously be exactly the same.

When once the relative values of the businesses have been ascertained, it becomes a question of policy for the two vendor companies to decide jointly whether the new company shall be capitalized on a high or a low basis. If it is capitalized on a low basis, then the new company's Balance Sheet would certainly look stronger, as the figure at which the goodwill would stand would be reduced. On the other hand, there are certain arguments in favor of capitalizing on a high basis, one being that the earnings of the two businesses when amalgamated might be expected to be considerably higher than the combined figure of the past profits. Another reason which influences directors of companies against capitalizing on too conservative a basis is the possibility that at some future time taxation of profits may be imposed varying in some way with the ratio which the profits bear to the capital employed as shown by a company's books. Yet another reason is that if the capitalization is unduly low, the percentages of the dividends paid will be correspondingly high, and some owners of businesses think that workpeople are apt to be influenced, in making demands for increased wages, by the rate of the dividend which a company pays on its share capital, without considering or inquiring about the basis on which the company was capitalized.

The only point left to consider is the form which the share capital of the new company shall take. The obvious alternatives are whether it should consist of ordinary shares only or whether a portion of it should be represented by prior securities such as debentures or preference shares. An issue of ordinary shares only has, of course, the merit of simplicity, but an issue of preference shares is often convenient, as it can be arranged that such shares shall carry no voting rights unless their fixed dividend is in arrear, or unless matters arise which directly affect the preference shareholders' interests. A shareholder in a vendor company who under an amalgamation scheme receives his share of the consideration partly in preference shares in the new company and partly in ordinary shares,

can thus sell his preference shares at any time without lessening his voting rights. Furthermore, preference shares, as having a stable and well secured income, are more in favor than ordinary shares for the purpose of family trusts. Somewhat similar remarks would apply to debentures.

If each of the two vendor companies receives the same proportion of the shares allotted to it in the form of preference shares, and the same proportion in the form of ordinary shares (say, for example, one-third in preference and two-thirds in ordinary shares), then it does not matter, as between the two vendor companies, whether the preference shares carry a high or a low rate of dividend, because what each loses by reason of the preference dividend being low it would gain by the profits available for the ordinary dividend being correspondingly higher. But if the new company is capitalized, for example, on the basis of issuing to each vendor company preference shares for the net tangible assets acquired from that company, and ordinary shares for goodwill, then, of the total share capital which it issues to each vendor company, it is probable that the same proportion will not in each case be represented by preference shares, and the same proportion by ordinary shares. In such circumstances it will be important to attach such a rate of fixed dividend to the preference shares as will make them equal in value, per share, to the ordinary shares at the time when the amalgamation is effected.

In the majority of instances, I think it will be found preferable to keep the ratio of preference shares to ordinary shares the same as regards the allotment made to each vendor company. This avoids any inequality of treatment as between the two companies by reason of the preference dividend being fixed at a high or a low figure. Incidentally, I might mention that one objection to fixing the rate too low is that if the new company wishes to make a further issue of preference shares at any future date, ranking *pari passu* with the original issue, and the fixed rate of dividend is on the low side, it may be difficult to obtain subscriptions for the shares at par, and, as you know, it is illegal for a company to issue shares at a discount.

Each vendor company having sold its business to the new company, and having received the purchase consideration in the form of shares in the new company, goes into voluntary liquidation and distributes these shares among its own shareholders according to their rights.

I think this is all I have to say upon the last of the three schemes for merging interests. I must apologise for occupying more of your time than I had intended when first I began to prepare this paper, but I found as I went along that a number of points arose which I could not ignore altogether if I were to place before you, even in broad outline, a complete picture. I thank you for the patient hearing you have given me.

THE ACCOUNTANCY PROFESSION*

By WILLIAM CASH, F.C.A.

(President of the Institute of Chartered
Accountants in England and Wales)

The work of a professional accountant to-day embraces interests of the widest nature, and extends into every sphere of commercial activity. The Profession is fitted, by the experience of its members, to take a leading part in solving the great and difficult problems that confront the world to-day. Mr. William Cash, President of the Institute, in his able address at the recent Conference in London, said that the confidence of the public in the Profession was due to three characteristics of its members—Hard Work, Scrupulous Care, and Absolute Rectitude. The following extracts from his address are worthy of the most careful consideration.

The very large number of articles of clerkship registered is evidence of the desire of young men to enter the profession and the belief that it is a desirable calling. This belief, I am confident, is well founded. The training alone is a valuable equipment for almost any business career, and for a young man, membership of our Institute is a substantial qualification for such posts as secretary of a company, accountant to an industrial undertaking or municipal corporation, or financial manager for any corporate body or landed proprietor. Certainly the demand is ever present for such trained men at home and particularly for positions of trust abroad of a similar character.

The extension into foreign countries of many of our largest firms also affords opportunity for many young men to take up work of an interesting and responsible nature; so that although it may not be easy for a young man to start in practice on his own account, we may say with confidence that the profession is not a blind alley, but can, and does, provide many openings for those who adopt it as their own.

Professional Discipline

As you are aware, our Charter contains provisions for enforcing discipline in professional conduct among our members. Complaints may be lodged by anyone, fellow members or the public, and machinery exists for dealing with such matters. The Council have always been very jealous of these powers. They are not prosecutors, anxious to condemn. They are concerned to protect the members against unjust or ill-founded complaints, although for the honor of the profession they are equally anxious to uphold the high standard of conduct that applies to our body. I must be pardoned for alluding to this matter,

*Extracts from the Address of the President of the Institute of Chartered Accountants at the 12th Autumnal Meeting held in London, October 11th to 13th, 1921.

for the reason that I desire to call attention to the fact that the number of cases with which the Council are called upon to deal is extraordinarily small, and the character of such cases as arise is peculiarly light. These facts are eloquent testimony, as I suggest, to our right to retain the confidence of the public which we have won.

Amalgamation of the Profession

This leads me to the consideration again of the question that has been debated within these walls on many occasions in pre-war days, as to whether any scheme of amalgamation or unification of the accountancy profession is desirable or feasible. There can be no wish on our part to say one word that is derogatory of any other body of accountants. They number many men of undoubted skill, ability and integrity. But any scheme which contemplated any approach to monopoly would encounter violent opposition, and would in any event be linked with so many qualifications that it would not be all embracing, and for any advantage that might be received would probably involve a very heavy price. Moreover, I doubt if it would confer any real advantage on the public, or even on our members.

To our younger members, who by service under articles and examination have secured admission to the Institute, the opening of some easier door of entry to others now outside would, I believe, be extremely unwelcome.

Effect of the War on the Profession

Particularly, however, I desire to emphasize the extraordinary development that has taken place by reason of the great war.

At the very outbreak of hostilities, members of the profession were called upon for assistance in connection with the many financial problems that immediately arose.

The break in international financial relationships throughout the civilized world necessitated special legislation and extraordinary measures for the protection of our national interests and the control of activities in banking, trade, and commerce built up here and in our colonies by foreigners who were then alien enemies, but had previously enjoyed every facility for the foundation of businesses, both large and small, throughout our communities.

The public learnt something, but I venture to think that accountants learnt more of the extraordinary ramifications of these businesses, and how wide and deep-rooted were their foundations. Almost imperceptibly certain lines of commerce and finance had been passing more and more into foreign hands; but war, when declared, broke the threads, and I think we may now say that in many cases those threads will not be rejoined, and that our control will permanently be re-established.

There was at once a demand for the skilled and trained accountant, accustomed to deal at short notice with a crisis, such as suspen-

sion or forced realization brings about; and there followed to the profession a flow of business in matters of great complexity to be dealt with under novel conditions in the control, supervision and realization of the alien enemy undertakings that existed throughout the country.

But perhaps the most important work undertaken by members of our body was in connection with the new Government Departments, organized to meet war exigencies, and at the War Office and the Admiralty, at the Ministry of Munitions, and in the Government Trading Departments in food, timber, sugar, etc., by advice, in organization, in financial control, in regulation of contracts, there were found most of the leaders of the profession, and a very large number of the younger members also, whose training and capabilities were invaluable in setting in motion and carrying on the enormous undertakings that were created for the necessities of the war.

I have referred to these matters not in any boastful spirit. We are very proud to think that our members were able and capable of performing work of real value to the nation in the time of war but I cite these facts to show the extraordinary expansion that war brought to the profession, and the added status that has remained. Moreover, the special knowledge, as, for example, in costing, which this work gave to many Chartered Accountants, remains as a very valuable legacy for use in commercial matters on a return to peace conditions.

Before I pass from war work I should be very remiss if I failed to remind you of our war record in the field. A permanent memorial in this building will record the names of 184 members and 318 articleed clerks who gave their lives for the country. It is a proud and splendid achievement of these very gallant gentlemen who exchanged the pen for the sword, and whose offering was crowned by the highest sacrifice. In a relatively few years their names inscribed here will be to the next generation names and little more, but their gift will be a glorious heritage which our successors will esteem no less highly than we do to-day.

Professional Work To-day

A retrospect of war work carries us back some eight years only. I want you to bear with me for a few minutes while we look back a little further.

The character of our work has changed, and become in the change much more important and valuable. In numberless businesses of every character the auditor has become the adviser and expert whose assistance is eagerly requested. On questions of financial policy, on the raising of capital, on distribution of profits, on costing, and so forth, his advice is deemed to be essential, and further, in organization generally, his help has been sought and valued. In many a business, proper statistical records intelligently applied, have led from

difficulty and approaching disaster to smooth working and substantial success.

The older scheme of the auditor or accountant tied down to laborious checking of a routine character, and a mere methodical, mathematical accuracy, has passed away. I fancy in many cases the auditor was then regarded as a necessary evil, a bore and a nuisance, although of some value no doubt as a check against possible fraud. To-day I believe he is regarded as a valuable friend and ally on the road to success, and an essential adjunct to every business. As an obvious result, we find Chartered Accountants engaged in the direction of many important concerns. They have found their way into Parliament, and in municipal affairs they have often come to the front. The Lord Mayors of Liverpool, Manchester and Leeds in the last few years have been Chartered Accountants, and so is the present Lord Mayor-elect at Sheffield, and in the City Corporation here in London we are very well represented.

Gentlemen, these positions and this advance have been secured by three things—hard work; scrupulous, even meticulous care; and, above all, a reputation for absolute and complete rectitude.

So long as the profession sets for itself the ideal that the certificate or signature of a Chartered Accountant is unimpeachable, and a guarantee of a true and correct view of the affairs which he examines, so far as is possible for him to vouch, so long will the public continue to value, as they do to-day, the title we are proud to bear, and will entrust us with the work they now send us.

We ask for no more, and I claim that we are more fully qualified and capable of carrying out these functions so essential to public life and commerce than any body of men which could be organized under a system of State control for audit or other like duties in connection with, let us say, for example, banks and railways.

—and in the Future

From the past, may I turn to the future. You will admit that as a nation we are living in a time of great difficulties, and if you examine these difficulties they nearly all resolve themselves into questions of finance. I need only enumerate international finance, capital and labor, the state of trade, taxation, national expenditure, the cost of living.

Take capital and labor. Labor demands a larger share of the fruits of industry, and we are trending obviously in this direction through some system of co-partnership or profit-sharing, which will give labor some interest in capital, and which may ensure for the workman some security of employment and provision for old age. Any system of sharing profits will require definite ascertainment of these profits; any additions to the workers' share will involve the question as to whether the particular trade or industry can bear the particular allocation; and these questions have to be solved at a

time when impoverishment by war burdens and a world-wide reaction after universal hostilities are a terrible brake on industrial development.

That these problems are not peculiar to England is to me a source of some comfort. If, for example, we turn to America, we find that in the United States the position is very similar, and the difficulties are identical.

The railways, which there had been controlled, now find themselves in financial difficulties. Wages are said to be too high and are being reduced; trade is bad, and the unemployment question is serious. It was stated quite recently that the total unemployed men and women in America, mostly in the large towns, was between five and six million, and that in New York alone numbered 500,000, and the National Government have convened a conference to consider the best means of solving the problem. A revival of trade is spoken of, dependent, however, on a readjustment downward of wages. One watches here for signs of renewed activity, and I think some tendency in this direction may be discerned, but while so many of our former markets are practically closed by reason of the impoverishment of our customers, the recovery of our foreign trade must perforce be slow.

These are very large questions, but I believe that the Chartered Accountant of experience, with his special knowledge derived from his close connection with current business of every description, is particularly well qualified to assist and advise in the solution of the problems.

National Finance

I ask you to bear with me while I add a few words on the national question of finance, which, in the eyes of all thoughtful men, must loom so largely to-day, and which comes before us all in the concrete form of taxation. This is in two sections—imperial and local—but both are closely connected, because local taxation is relieved by grants from the Imperial Exchequer, but local expenditure is simultaneously increased by the carrying into effect of social services enacted by Parliament for the benefit of certain sections of the community, and classed under the general title of social reform. Now, these burdens have become extremely heavy, insomuch that they are often described as crushing, and there can be no doubt that some remedy by mitigation of the burden is ardently desired and may be essential if industry and trade are to prosper again.

We are face to face, as a nation, with great difficulties, and are so near the object that our perspective is out of adjustment, and we often, as I think, fail to realize the fundamental changes that are taking place.

The war, which provided us with the most magnificent examples of self-sacrifice of individuals and whole communities, of unity of purpose throughout our own Empire and the Dominions over seas, seems now, by a process of reaction, to have left us in a back-wash wherein

sectional effort and bickering have taken the place of national welfare. Democracy is an easy word, but democracy, without discipline and obedience, is a dangerous thing. Every man desires the well-being and betterment of his fellows, but the nation seems to me to forget that we are nationally vastly poorer than we were some years ago, and have to shoulder in our war debt and our war pensions two burdens which were then unknown.

The interest on the former in our current Budget amounts to £325,000,000, while the pensions involve a charge of £111,500,000, and yet we see continual appeals to the Government for assistance from the Imperial Exchequer for innumerable schemes. The extension of free education and housing subsidies make fresh requests, and looming large above all other questions is unemployment and trade depression.

I am afraid you will agree with me in saying that our clients' records for 1921, so far as manufacturers and traders are concerned, will not make a bright showing, and I am of opinion that claims for refund of excess profits duty paid in past years will in the current year assume alarming proportions.

Modern Business Methods

We see many and striking evolutions gradually altering the conduct of business. Modern methods are machine methods. The individual craftsman and the small manufacturer are getting fewer and fewer. Large amalgamations in manufacture, in banking, in shipping, and now in railways, are evident on every side. Are these signs of well-being? Mass production, with a view to cheapening the product, has, of course, a great deal in its favor but with this principle of amalgamation has developed combination of labor, and trade unionism has consolidated not only the manual worker, but the clerk and other sectional bodies of employees, so that from both causes individual relationship between employers and employed is apt to be lost, and agreements concerning industrial matters are made by representatives of a trade as a whole, or even on a national basis.

Meanwhile, Parliament seems to be baffled and impotent, and the people are perplexed by the voices of many counsellors, most of whom are very vocal, but too often have little wisdom. There are many cries of anti-waste, but not much really practical help or suggestion. Perhaps you may think that I have drawn a pessimistic picture, but many of us could suggest from our professional experience in the organization of varying businesses one or two fundamental principles which should apply to expenditure if we were asked to advise in the case of a concern which was not financially successful.

Bureaucratic Control

First, let us look at administration. Can this be reduced? During the war the Government assumed control. Railways, shipping, coal, wheat, food, munitions—all passed under the hand of various Ministries. All were wanted for national purposes, and for the pro-

tection of the consumer against the capitalist who might make a war fortune special levies and penalties were enforced. It was demanded by the nation and deemed essential by the worker, and probably like circumstances would bring again like enactments. But, in practice, it was very costly, and now it is found that bureaucratic control means baneful interference—freedom from control is necessary, and the old law of supply and demand reflecting on prices will regain its potency, so that in administration a saving can be made.

The Burden of Rates and Taxes

Secondly, rates and taxes. Local rates must be reduced, and our local authorities must see to it that economies are effected. I know their hands have been forced; that wages have increased, and materials are dearer; that in many towns there are slum areas that should never have existed, and improvements long over-due. But is now the time to undertake these duties? Can we afford them? I noticed that the chairman of one of our largest iron and steel undertakings, with a capital paid up of some 13 million pounds, in his address to his shareholders, speaking of local rates as a handicap on industry, used, as examples, the rates in Birmingham, which have risen from 8s. in 1914 to 18s., in Cardiff from 7s. 8d. to 16s. 4d., and in Merthyr from 10s. 5d. to 27s. 5d., with a supplementary rate of 3s. 4d. Certainly these are alarming figures. Taxes are terribly heavy, when income-tax and super-tax take nearly half a man's income, and make the building up of reserve capital by saving a matter of supreme difficulty. But it is no real economy to endeavor to ease the local burden by increased grants from the Imperial Exchequer. Not by such means will the total expenditure in the National Budget show a decline. It is the spending of the money that must be controlled and restrained.

The Vicious Circle

Wages and salaries. Herein, as I venture to think, lies the key to the whole situation. Services rendered in some form or another are only of a value that can be exchanged as valuable consideration for some other commodity. It seems a hard saying from the worker's point of view that when wages or salaries are high the user or employer of labor will buy or take as little as possible, will reduce the staff to the smallest limit, and as a consequence unemployment will grow. We find ourselves again in the vicious circle which was so forcibly condemned when rising wages and the rising cost of living were engaged in a fruitless endeavor to overtake one another. Now the burden of unemployment threatens to re-act in the cost of providing for distress and necessity, and so nullify any saving by reduction of staff. As it seems to me, a long view is necessary, and the ultimate end will be reached by an adjustment that is really automatic. Reduced cost of living will follow a reduction in the cost of production, brought about by a reduction in the payment for services rendered, though the fact that the latter must precede the former may be fraught with painful experience in the process. Alternatively or

simultaneously, more service for the same payment may assist to the desired result, and although shortened hours may be a desirable thing, a poorer nation, as with a man in straitened circumstances, may be compelled to work harder to save the situation. Certainly we cannot afford to pay the price now paid for certain work. It was stated in Parliament that boys of 16 to 17, were entering the Civil Service on a salary of £60 a year with a "war" bonus of £93, or £153 in all, and older lads of 18 to 19 on a salary of £100 with £148 added, or £248 in all. And again, on 30th June 1921, that girls up to the age of 18 employed in a Labor Exchange received a salary of £52, plus £85 16s. for bonus. I have no personal knowledge of the quality of the services rendered, but to me these payments appear excessive.

I am sure that you will accept the proposition that reduced cost of production is essential if we are, as a nation, to restore our overseas trade in competition with other nations, assisted by depreciated exchange values.

As another example of the vicious circle, may I point to the essential supplies of water, gas, electricity, and traction by rail or road, where increased price of these necessities is added to every article of consumption, and to the local rates, and so finds its way many times over into the cost of living.

Taxation

I hope I may be permitted, without wearying you, to turn to another subject which intimately affects our profession. The latest methods of taxation as embodied in the Finance Acts of the last few years have brought to accountants a large influx of work. The Munitions Act, 1915, was the first attempt to limit profits and stop war profits accruing to those manufacturers who had obtained through national necessity enormous access of business through war contracts. The excess profits duty followed on more elaborate lines with the same end in view, and was based on the principle that those who were making exceptional profit could afford to bear exceptional taxation. This duty has been very loudly condemned as unsound in principle and as a drag on trade. No doubt it had a tendency to encourage extravagance, and to render efforts towards economy nugatory. It was sometimes said, not always in sober earnest, "The Government really pays," but it would be an interesting inquiry among accountants as to how many real concrete instances could be adduced where, because of excess profits duty and income-tax, business was, in fact, actually declined, or men sat idle, unwilling to trade because taxation rendered enterprise so little remunerative. In my own experience I do not know that I could produce one really authentic case, but many of you gentlemen come from the industrial north, and you may have a different tale to tell.

The steady rise in income-tax brought with it special legislation. With this tax at 6s. in the £, and super-tax payable by the individual in addition, there followed a constant stream of hard cases. More-

over, a battle of wits ensued between the taxpayer anxious to avoid by all legal means where possible the very substantial payments demanded, and the authorities endeavoring to enclose in the net all possible sources of taxation. Super-tax might be partly avoided by the conversion of a personal business into a Joint Stock Company, so that the Corporation Tax followed as a charge on the profits of practically all corporations or companies.

These factors have produced a very complicated system of assessment due in no small measure to the endeavor to legislate for special or hard cases, and to ease the burden for the small trader or taxpayer with a small income. The result is seen in an annual return for income-tax with pages of instructions, and in the numerous publications and guides to the Income Tax Acts, so that in the majority of cases both traders and private individuals have had recourse to professional advisers to enable them to make their returns or adjust one or other of their taxation payments. It is not for accountants to complain, although a great deal of the work of this character that they are asked to undertake for clients is irksome, and of necessity badly remunerated. But from the point of view of the community I am inclined to think that it is not entirely satisfactory that the taxpayer cannot make his own returns without assistance. As a matter of fact, it is a want of patience and a sense of mystification that often places him in this position, and also, in the case of the private individual, the absence of any system of record that sends him to his accountant.

The Inland Revenue and the Profession

One aspect of the business should afford us substantial satisfaction, and that is that the Inland Revenue Authorities more and more lean on the Chartered Accountant, and are willing to accept his statement or certificate as to the facts in most cases, knowing that while the accountant will do his best in all fairness for his client, he will not withhold essential information, or be a party to any attempt to avoid proper assessment.

Legislation by Reference

There is still another matter on this subject to which I would refer. The language employed in the various Acts of Parliament dealing with taxation is very often obscure and involved and technical, and too often legislation by reference is employed. This last method is most objectionable. I could give many instances, but you are all familiar with the practice, and I think you will agree with me. Surely it would be simpler in the various Finance Acts that follow one another when it is necessary to alter the law, to repeal the original section that requires amendment from the appropriate date, and re-enact the operative clause. At least, such a procedure would avoid a reference back from one Act to another. The codification of the Income Tax Acts in one statute in the Income Tax Act, 1918, was

something to be thankful for, and was a move in the direction I have indicated.

As to the obscurity of language employed, it is a patent fact that an appeal to the High Court is too often necessary to interpret the meaning of the words in an Act of Parliament and that these do not coincide with the intention of the statute is sometimes apparent.

Government Control

There is one aspect of bureaucratic control which, in my opinion, has not received the attention which it merits. Parliament has, by a process of devolution, very largely handed over the control of statutory undertakings to various Government Departments. Railways are in the hands of the Ministry of Transport, whose powers under the Ministry of Transport Act, 1919, are all-embracing.

The same Ministry deals with the tramway undertakings, revises their charges, &c., and also controls docks and harbors in like manner.

Electricity undertakings are dealt with under the Electricity (Supply) Act of 1917. All the former powers of the Board of Trade have been transferred to the Ministry of Transport, who have appointed a separate body of experts known as the Electricity Commissioners, who are responsible to the Ministry of Transport, but to whom he must refer all matters for their advice. They can reorganize the supply of electricity in any district. They may call for, or themselves formulate, a scheme for improving a supply. They can compel linking up, limit charges, &c., and although certain of their proceedings require Parliamentary sanction, their powers are very extensive. Already, several schemes for London have been discussed at an inquiry extending over 26 days in June and July last.

The Gas Regulations Act, 1920, confers very full powers on the Board of Trade as regards gas undertakings.

Water companies' charges are now within the competence of the Ministry of Health, who can make orders for both companies and local authorities under the Water Undertakings (Modification of Charges) Act, 1921.

Most of the powers now to be exercised by Government departments were previously reserved for direct Parliamentary sanction by private Bill and Act. No doubt, so far as procedure is concerned, some economy may be anticipated, but the capital at stake in all these very numerous public undertakings is enormous, and although the public officials who will in future have to deal with all these questions are no doubt able and conscientious men, and in some particulars their acts are subject to Parliamentary review, there is a danger that an official decision may be taken which may not be the wisest, and once taken, such a decision may be very difficult to amend or reverse. The mind of the official is guided, or, indeed, ruled by precedent, and this is perfectly natural, whereas Parliament exists to create precedent, and progress and altered circumstances demand new precedents

to meet such variations. These undertakings may be described as regulated monopolies or semi-monopolies, and provide services essential to modern life, but the regulations to be applied must be designed and effected with discretion and the greatest care, or grave injury to the community may result.

—From The Accountants' Journal.

AN ADDRESS ON THE INCOME
WAR TAX ACT

BY MR. HUGH PATERSON

At Luncheon of Chartered Accountants Club, King Edward Hotel,
Toronto, February 27th, 1922.

Mr. McNabb introduced Mr. Paterson, the Inspector of Taxation for this district.

MR. PATERSON: Mr. Chairman, Madam and Gentlemen: I do not know whether your chairman thought that I might come here and say something that I should not say and has accordingly arranged for the presence of a lady, but in any event he has intimated to me that I must be very careful what I do say.

I also think your Chairman has misunderstood my capability somewhat. The waitress passed down here a few minutes ago and he promptly motioned her by so that I should not have a second glass of water, which would indicate that as soon as I dried up I must stop. I am reminded of a little incident which happened a few years ago during a political campaign in this province. Two of the politicians were billed to speak at this meeting—one was to have the first hour and the Opposition was to have the second hour. When the first speaker reached the end of his first hour he was still going strong. With the aid of a glass of water, which he kept repeatedly using, he was able to carry on for another forty-five minutes. This nearly took the wind out of the sails of the second speaker. When he finally got up to speak he said: "Well, Gentlemen, I have travelled a lot; I have seen many strange sights; I have seen the Pyramids of Egypt and a few of the other wonders of the world; but this is the first time I have seen a windmill run by water." (Amusement).

But joking aside, I feel very highly honored to be asked to address what might be known as the quintessence of accountancy of this district. I see before me, certainly, the handsomest group of men I have ever had the pleasure of speaking to. (Amusement). Furthermore, outside of looks, undoubtedly there are *brains* as well. (Prolonged amusement).

Dealing with the question of Income Tax, you will appreciate that it is a dry subject. When I was asked to come here by Mr.

Campbell, who is unfortunately ill and cannot be here, he informed me there would only be about forty or forty-five members present ; so I said, why in that case we would just have a little round table talk. But now, I find there are over one hundred present. It would appear, therefore, that the majority before me must be senior students ; hence then, if I may be permitted, I will address most of my remarks to the senior students, because the men who have the privilege of putting that magic symbol "C. A." after their names will probably know as much as I do on the subject on which you have asked me to speak, and undoubtedly would be, like a friend of mine who was invited to a house to spend the evening. This friend was noted for his stories. He had a great fund of humor, and his host said: "Now I have another friend from out of town who is unfortunately a dummy. He can hear, but he can't speak ; but he is very, very interested and he likes to hear a good story, so I want you to come up and help me entertain him."

So the story teller went up to his friend's house, and he started in and told all the good yarns he could think of. Every time he finished a story the dummy would (tapped chest in imitation, tapped forehead in imitation)—he kept on and on, and after every story, why it was the same thing. When he was going out the door, he said to his host : "What was the matter with that other chap ? Every time I told a story, he" (tapped chest in imitation, tapped forehead in imitation).

"Why," said his host, "he meant 'chest' (tapping chest) 'nut' (tapping forehead), that is chestnut." (Laughter). So I suppose all the C. A's here might deal with me in a like manner (tapped his chest and his forehead) "Chestnut". So that is why I will address my remarks to the senior students.

In the first place, as you know, the Income Tax came into effect January 1st, 1917. When it was brought into effect by Sir Thomas White, the then Minister of Finance, he was very doubtful as to what revenue would be produced by it ; in fact, he was in the same box as the first Minister who introduced such an Act in England back in the 1700's—I think it was Pitt—he brought it in apologetically as a measure to produce revenue, which he did not think was going to amount to anything. But subsequent events have shown that it has become one of the fixed revenue-producing Acts of Great Britain, and today undoubtedly the present Government in Canada feels the same way.

For the last fiscal year the revenue from Income Tax is going to be the highest, of course, that has ever been received by the Dominion Government.

The American Act, as you know, came into effect in 1913, and our Act was largely laid down on the fundamental basis of the American Act. But today the American Act is different from ours in a great many instances. As you well know, the United States have ruled that stock dividends are non-taxable, whereas in Canada stock dividends are taxable for income purposes. But the difference between the American Act and our Act in respect to stock transactions is this—

that we do not, in the case of an individual, tax the profit made on the sale of stock providing that the individual is not engaged wholly in financial operations. The United States do tax those profits.

Again, in the United States—the last Act which is effective for 1921, gives the married men an exemption of \$2500 whereas our Act only gives a maximum exemption of \$2000. The American Act also I believe will give an exemption of \$400 for each child under eighteen years ; our Act only will allow \$200.

But the American Act goes farther. It goes after the American citizen, no matter where he resides—if the American citizen still retains his American citizen rights. the American Government says : “If you desire to enjoy the privileges and the protection of the American Flag, no matter where you are residing, you will pay an income tax to the United States Government.” But they will permit a reciprocal arrangement, whereby if that same American citizen resides in Canada, that any tax that he pays to the Canadian Government will be allowed as a deduction from the American tax. Heretofore that has resulted in practically any man who had less than a \$5,000 income being liable to only one form of taxation ; but you can see, with the exemption now greater in the United States than Canada. that we will get a tax, no matter what the exemption will be, on the American citizen, because our exemption is only \$2,000.

Another item in the American law, is a clause to the effect that if a non-resident alien—or a Canadian Company having incorporation or a licence to do business in the United States, charges in the American profits an expense for administrative salaries and the person receiving that salary resides in Canada, they say, no matter what your marital status is, we will only give you an exemption of \$1,000. Canada is more generous. An American Company doing business here and charging administrative salaries against the Canadian business, is given the benefit of the full status that they are entitled to with the same exemption for children as if residing in Canada. So that you can see we are, if anything, erring on the side of generosity, rather than trying to squeeze out the last penny that can possibly be received.

Just at this time when we are discussing the question of Income tax and when the returns are about to be rendered, I thought it would be a good idea, subject to your consideration, if I would just run briefly over the forms, as it may bring up some points which some of the members may not be altogether familiar with.

If I may take the forms—in numerical order, we have Form 1, which is the return to be filled by an individual. There are very few clauses in that form which are not readily understandable, that is after you have first gone over them, although the public generally say : “Well, that is the worst looking statement to complete I ever saw.” And they look over the clauses—here is a man with a salary only and he says : “What am I going to do with rentals ? I have no rentals.” The simple thing is not to do anything about it.

But the first point we do have trouble with is the question of dependents. We have to be governed entirely by the Act respecting dependents. Now unmarried persons of course are only entitled to a statutory exemption of \$1,000, but an unmarried person who has a child solely dependent upon him for support, providing that child is under eighteen years of age, is entitled to a \$200 exemption for that child; that is, if an old bachelor adopts a child of a relative and agrees to educate that child and support it, and that child is under eighteen years of age, he is entitled to \$200 exemption for that child.

In addition, if that unmarried person is supporting a dependent brother or sister under eighteen years of age or a dependent parent or grandparent, we say then, that single person is the head of a household and entitled to the maximum exemption of \$2,000, but the brother or sister must be under eighteen years of age. Now this, by a good many people, is considered a hardship, and several groups of taxpayers have taken the matter up with the department, but whether any action is to be taken at the next session, of course the powers that be know. If the dependent is over eighteen years of age—if a brother has, say a sister of thirty or thirty-five, keeping house for him, he is not entitled to an exemption of more than \$1,000.

Then married persons—of course that is plain; they are entitled to the statutory exemption of \$2,000 with \$200 for each child under eighteen, no matter what the parentage of the child may be, if the child is dependent upon that family for support.

Widows and widowers are very much the same as unmarried persons; without dependents the exemption is \$1,000. But if a widow or a widower has a child under twenty-one years of age—this has to be their own child—then they are entitled to the \$2,000 exemption the same as a married person; or if they have a child who is physically incapacitated, and can not earn his or her own living, and the child is over twenty-one years of age, then we still give them the maximum exemption of \$2,000.

That covers practically the total clauses of dependency for individuals.

Now then, of course there are various items of the return which would take an endless time to go through, particularly the question of Bad Debts. There are no bad debts in the case of an individual unless he is engaged in business, or the practice of a profession. But even now we have a great deal of difficulty with some of the largest tax payers whose income consists largely of salaries, directors' fees and dividends,—suppose he lends money—say he lends \$10,000 to some of you gentlemen, and you decide "Well I need the money more than he does," and should leave the country and the taxpayer writes it off as a "bad debt." It is not allowed as exemption. It is simply a capital loss. In the case of an individual, why we might as well forget that there is such a thing as bad debts.

Form "T2" is the return of a corporation. Of course most of the

returns of corporations are handled by you gentlemen in a very nice manner. You build up a very attractive statement of Profit and Loss. You send it down to us, we look it over; everything is plain. You tell your clients: Well, now, your tax is $10\frac{1}{2}\%$ on so much. The first thing we do is to have one of our C. A's—Clever Assessors—(prolonged amusement) examine this return. These C. A's of ours get busy and they dig down into your item of General Expense and the first thing you know we have discovered a golden nugget of \$100, in the form of a "donation," and we tax you 10%, with 6% interest from April 30th. (Amusement).

In rendering returns, where you are making up statements for clients and filing their Income Returns for them, where you come to an item of general expense, it would save us a lot of time if you would attach a supplementary schedule to your statement itemizing what the general expenses constitute, because we require this information in every case. I would say if a return shows any kind of taxable profit, if a company is going to pay a tax of $10\frac{1}{2}\%$, and your Expense Item runs into \$2,000 or \$3,000 or upwards, we should have that account itemized.

Form "T3" is the return of Estates. There seems to be a certain element of uncertainty there. Most estates are handled by Trust Companies, but it may be of interest to you to know some of the difficulties and the responsibilities in connection with the filing of Form "T3."

The Amendment to the Act distinctly says that an estate cannot be divided unless the Trustee has received a clearance certificate from the Department. Now the clause covering that, if I may be permitted, I will read to you so that there may be no misunderstanding—it is in the amendment of 1920—subsection 10 of section 10—"Trustees in bankruptcy, assignees, administrators, executors and other like persons, before distributing any assets under their control shall obtain a certificate from the Minister certifying that no unpaid assessment of income tax, surtax, interest and penalties properly chargeable against the person, property, business or estate, as the case may be, remains outstanding. Distribution without such certificate shall render the trustees in bankruptcy, assignees, administrators, executors and other like persons personally liable for the tax, surtax, interest and penalties."

I might go a little further and read a memo, I have here which will probably explain it a little more clearly:—

"A good deal of uncertainty seems to prevail with regard to taxation of income in the hands of trustees. It must be pointed out that section 4 of the 1920 Amendment to the Income War Tax Act 1917, expressly provides that it is only in cases where income is accumulating in trust for the benefit of unascertained persons, or of persons with contingent interests (i.e., where the ultimate recipient of the income cannot be definitely ascertained until a future date, and no one

is entitled to immediate enjoyment of it) that such income is taxable in the hands of trustees." That is, if the Will says that the "Income is to be divided among my children then living," those persons would be unascertained, because there might be five children alive at the date the Will is made and the Estate is not to be distributed for ten years, no one knows what children will be alive at that time; therefore the Trustee has no power to distribute the Estate at that time or to distribute the income. Therefore we tax the Estate on the income year by year until that income is distributed.

"It is not a question of distribution for if the beneficiary is ascertained and entitled to enjoy the income from an estate, such income is taxable in the hands of such beneficiary whether actually received by such beneficiary or not."

That means that if the beneficiary is ascertained, even if the Estate does not distribute but it accrues to the credit of a certain beneficiary, we say they should be taxed; they are credited with it every year and if we did not do that it would mean that the income would accumulate for four or five or six years and at that time the tax payers might be called upon to pay a heavy surtax on accumulated income. Whereas, if the income is spread over the years, it might be below the amount of income on which the surtax is computed.

Now then, we come to "T4": the return for Employees, and of course we have had a lot of difficulty with the failure to file these returns by March 31st—unfortunately the Department had to send out a great many penalty notices for failure to file—but there are only two items in here which may be of interest, and one is "Directors' Fees." It says at the top under "Instructions" that this Return must include Salaries, Wages, Commissions, Fees, Bonuses, and other remuneration of all Directors, Officials, Agents, Employees, Professional men or other persons who received \$500 or more during the calendar year ended the 31st December, 1921, and who were paid at a rate of wage or salary (including bonus) equal to \$1,000 or more per annum except as hereinafter directed."

Now, continued the speaker: if we left it at that, it would mean that a corporation would not necessarily report any directors' fees if they did not include \$500 or more. But a little farther on you will read: "Directors' fees, commissions, and amounts paid to Medical Officers and other professional men, must be reported irrespective of the amount paid or the rate per annum." That is, if a Professional man gets a fee from a client, even if it does not amount to \$500, the corporation or employer must report the amount notwithstanding what the amount may be.

Then we have the question of Commercial Travellers. Probably this has come to you before. There is a column on the form for 1921 which calls for reporting of travelling expenses, (except salary or other remuneration) paid to commercial travellers. On the face

of it, that looks rather ridiculous, but it is largely to cover a case where a corporation pay them so much salary and a lump sum to cover their travelling expenses, and if the traveller can save anything out of his expenses, it is his ; if he runs over his allowance, it is his lookout. In cases of this kind, we have a certain basis for working out what expenses that traveller is entitled to charge against that lump sum. On the other hand, if a corporation simply pays their travellers a weekly or monthly expense account, as rendered by the traveller—I am not speaking officially, and I am not speaking in that capacity here—it will be all right if you just put a note at the bottom of Form “T4” and say—“you are reporting \$1 per day for each day that the commercial traveller is out on the road,”—because we feel if a commercial traveller is paid his expenses, that his living on the road is worth at least \$1 a day to him. So that in the case of commercial travellers whose expenses are paid by the firm according to their actual weekly or monthly expense account, if the firm would just say : “We have reported under column 8, \$1 per day for every day the commercial traveller is on the road,” it would save you a lot of trouble, and I think it would be acceptable to the Department.

Then there is one other question, and I will hurry, so as not to keep you, and that is the difficulty of rendering income for what is called “the calendar year.” We take the stand that in case a corporation pays or credits an employee with a salary or bonus and because that income has appeared as an expense in the financial statement of that company for that fiscal year, then it is credited naturally to the account of the individual and should be reported by him and by the company as income for the calendar year. There is a little uncertainty I think in some cases about that, but that is what should be done in every case—if the amount appears as an expense for the year in which the return is being rendered, then it should be reported by the individual after it is credited to his account.

And just while I am on that point : there might be a little difficulty there on the question of dividends : if a company, whose year ends on December 31st, sets aside the dividend, but it is not declared by the Board of Directors until the following year, and they have a great list of shareholders. that dividend cannot be specifically credited to the individual ; therefore, we do not treat that dividend as income until it is actually paid. If it is a close corporation, where there are only two or three shareholders, and those shareholders have accounts on the books of the company and the dividend is declared, it should be reported as dividends in the calendar year. You see the difference—it is largely where the dividend is credited to the individual that it should be reported for the calendar year, irrespective of when it is paid.

That will cover the forms and I notice it is two o'clock. I am sorry this has been rather a rambling talk we have had. I

noticed on the card that was sent out that Mr. Campbell said I would be glad to answer any questions. (Humorously). We get a lot of questions through the mail. Only recently I got a request from a lady, who wanted to know if I could tell her whether a certain male tax payer in my district was married or single. I have not answered the letter yet. I don't know what to say. Another person writes me from another part of the country and wants to know what is the procedure for prosecution in respect to a delinquent tax payer, the information being required in connection with a novel that this person is going to write.

Now I don't want to get myself into a novel under any circumstances, so that letter remains unanswered as well.

The speaker then invited questions, but said at the same time "I want to retain the privileges that certain members of Parliament have when they go around the country making speeches, they sometimes are reported as having said one thing, and when it is brought up to them face to face they say: "Why that is not what I said; by the time it had gone from me to you, the wind had twisted it about." So if I answer any questions today and you come back later on and say to me, you said so and so at the luncheon, I reserve the right to confirm anything I say in writing."

Question: In the event of a company having to reorganize for financial reasons, necessitating the payment of additional stock, say for instance, a man is a holder of \$20,000 stock in a company and under the reorganization, he gets \$40,000 of stock, would the dividend, where the additional stock is in the hands of the shareholder, be taxable?

MR. PATERSON: That is a question that is before our Legal Department today. There has been a concrete case put before them, but what the result is going to be I cannot say. We have taken the stand heretofore, that it is taxable; the distribution of any surplus in the case of reorganization is payable as a stock dividend. It would only be a case of the distribution of the surplus on hand prior to the reorganization. I think myself an official decision will be made very shortly.

Question: Referring to the maximum exemption in the case of a man—say on the first of November his wife dies—what exemption would he be entitled to?

MR. PATERSON: Ordinarily we take it at whatever his status is at the end of the year. But, we try to be generous, and we would give him the maximum exemption in that case. As a rule, we take the stand if a man is entitled at any time of the calendar year to the maximum exemption we give it to him. It is not his fault that his wife died—at least we hope not.

Question: Do I understand if a man married on the 31st of December he would get the maximum exemption?

MR. PATERSON : (humorously) We try to encourage them.

Question : When the reserves for depreciation equal the book value of fixed assets, what is the Department's attitude in that ?

MR. PATERSON : No further depreciation allowed.

Question : Are profits from the sale of capital assets, which are not taxable as income of the Company, taxable when distributed to the individual shareholders as dividends ?

MR. PATERSON : Generally speaking, the profits would be taxable when distributed.

Question : A partnership consists of two partners. One partner is an incorporated company ; the other is an individual. The partnership makes a certain amount of money. Half of that profit goes into the hands of the incorporated company. Is that profit taxable on the part of first the company as a partner, and then again in its own returns ? Does that profit have to be taxed twice ?

MR. PATERSON : No, it is only taxed once. As you know, the Act specifically says that a partnership as such is not taxable. So that if half the partnership is owned by an incorporated company, that half of the profit would be taxed against the incorporated company and the other half against the individual.

Question : Then the incorporated company would only have to make the return of that profit in its own returns ?

MR. PATERSON : Just in its own returns, whatever they receive.

Question : The question of interest on borrowed money : I understand that if money is borrowed for personal purposes, the interest is allowed as a deduction ?

MR. PATERSON : It depends largely on what the return is—that is one which we have really no hard and fast rule. We try to be as generous as we can. Any place where we can allow it, we do. Each case has to stand on its own merits.

PROPOSE "BLUE SKY" LAW

AT a meeting of the United Boards of Trade of Ontario, held recently at Woodstock, resolutions on stock selling and stock selling propaganda were passed.

In discussing the resolutions it was maintained that legislation could not compel a man to keep his money and not put it into any wildcat scheme he might desire, at the same time it was felt that some legislation of a protective nature should be enacted. The average business man was as likely to be taken in by a glib-tongued stock salesman as the widow and orphan.

A special committee was appointed to wait upon the Ontario authorities to ask for legislation for the protection of investors.

THE
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The Publication Committee will be pleased to receive contributions on subjects of interest. Papers which may not be deemed suitable will be returned, if desired.

All communications to be addressed to "The Canadian Chartered Accountant," 518 Continental Life Building, Toronto, Ont.

DOMINION CONVENTION

MR. H. D. Creighton, the President of the Dominion Association, has advised that the Nova Scotia Institute has selected Tuesday, Wednesday and Thursday, August 8th, 9th and 10th next, for the 1922 Annual Meeting, which will be held in Halifax. Further particulars will be announced in due course.

THE CANADIAN SOCIETY OF COST ACCOUNTANTS

IN the July 1920 issue of the magazine reference was made to the incorporation of the above Society. Developments of prime importance affecting the future of this Society have taken place within the past month, and our readers would do well to refer to that issue and thereby recall the circumstances, which space forbids us to review here. In due course the Society held its inaugural meeting in Toronto during the session of the Dominion Association meeting, and a membership of upwards of 300 persons interested in Cost Accounting was secured, two-thirds of whom were members of our Chartered Societies.

Some differences of view arose as to the best method of promoting the usefulness of the new Society and further consideration was deferred for the time being, the term for which the members had paid their first annual fee being extended by resolution of the Board of Trustees. Now, however, a definite opportunity has presented itself for carrying on the work of the Society in a vigorous way. Negotiations with the National Association of Cost Accountants—which was organized in 1919 and has at the present time a membership of 2,500, including Public Accountants, Business Executives and Cost men—have resulted in an understanding whereby the two bodies will work in harmony and pool the bulk of their resources for the benefit of the combined membership. The essential features are that their respective spheres of activity will be defined, the international boundary being the line of demarcation. Each will establish out of a \$20

annual fee, an expense element of \$5 to be devoted wholly to their separate uses, and the balance of \$15 will go into a common fund, and be expended in Cost research, original articles and publications.

A member of either Society will after March 1st, have all the privileges of membership in both, excepting that he will have the right to vote in his own Society only. The fees will be payable \$10 on the 1st March and \$10 on the first day of September in each year. He will receive the Annual year book, fifteen to twenty original selected articles, the same number of bulletins containing short articles and general information, Standardization Reports, and access to the research files for technical assistance in special cases.

All publications will be issued under the joint auspices of the two Societies, and meritorious original articles by our own members will be welcomed.

The annual convention of the National Association will be held occasionally at some point within Canada, the intention being that our Society shall participate in all the common activities, to the full extent at least of its relative importance, wherever the annual gatherings may be.

The willingness of the National Association to thus extend their co-operation to the Canadian Society merits unstinted praise. There can be no question that the opportunity should be seized to build up our Canadian Society. Every industrial client of our practising Chartered Accountants should take out at least one membership for an executive officer or Cost man, and every firm of Chartered Accountants should include one or more members so that this invaluable service may be secured. The demand for copies of back publications has been so great that they are now mostly out of print, therefore, the only certain way of securing them is by joining up now, at the beginning of the half year.

The Secretary's address is 518, Continental Life Building, Toronto.

EXPLANATION

IN our issue of November 1921 under the heading "SKATING ON THIN ICE" we commented on a form of advertising by a firm of Chartered Accountants which we considered objectionable. The firm in question have replied that they had no idea the sending out of the matter referred to could in any way be criticized and they assure us that they have every desire to comply with the ethical standards of the profession and resent any suggestions to the contrary. Having had a full discussion with them we are glad to accept their assurance and to withdraw the suggestions complained of.

PERSONAL

Messrs. H. A. Tolmie, & Co., Vancouver, announce removal of their offices to Metropolitan Building.

Messrs. Arthur E. Phillips & Co., Winnipeg, advise that they have recently moved to new offices, 1103 Union Trust Building.

Messrs. John Scott, & Co., Winnipeg, have moved their offices from the Belgica Block to the Montreal Trust Building, Portage Avenue.

Messrs. Geo. A. Touche & Co., announce that they have opened an office at 312 Union Bank Building, Victoria, B. C., under the management of Mr. H. G. Hinton, C. A., who has been associated with them in their Vancouver Office for some considerable time.

Mr. Charles A. Jardine, C. A., a member of the Ontario Institute, who was with Messrs. Barrow, Wade, Guthrie & Co., New York, for sometime, announces the formation of a partnership with Messrs. Greenleese & Ohl, under the firm name of Jardine, Greenleese & Ohl, with offices in the "Times Building", New York City.

OBITUARY

MALCOLM H. ROBINSON

It is with deep regret that we announce the death of Mr. Malcolm H. Robinson, Montreal, which took place suddenly on February 11th, 1922, of heart failure.

Mr. Robinson was born in London, England, and after receiving his education at Dulwich College, served his articles with Messrs. George A. Touche & Co., London. He passed the final examination of the Institute of Chartered Accountants in England and Wales in 1906, and was admitted a member in February, 1907.

In 1908 he was sent by his firm to Toronto where he opened the first office of the firm in Canada, and remained till 1918. He was admitted as a member of the Ontario Institute in 1909, and in 1919 he became a fellow of the Institute. For a number of years he was a member of the Examining Board, and was Vice-President during the years 1918-19 and 1919-20.

From 1919 to the time of his death he was resident in Montreal. He was admitted a member of the Association of Accountants in Montreal in 1921.

The late Mr. Robinson was well known in Accounting circles from coast to coast. He had a high conception of the ethics of his profession and was always willing to give his advice and services on any matter which he considered of benefit to the profession as a whole.

His firm and the profession have suffered a great loss by his decease.

**CHARTERED ACCOUNTANTS CLUB
TORONTO**

The Editor,
The Canadian Chartered Accountant,
Continental Life Building,
Toronto.
Dear Sir,

February 15, 1922.

In a recent issue of the Canadian Chartered Accountant, you published a letter from the Secretary of the Montreal Chartered Accountants' Golf Association giving a description of the competitions held last fall by that organization. It gives me great pleasure to say that at the last meeting of the Chartered Accountants' Club in Toronto, a Golf Committee was elected as follows :

H. J. Welch, F. C. A. ,	E. J. Howson, C. A.
R. J. Dilworth, F. C. A.	G. A. Peters, C. A.
Osler Wade, F. C. A.	J. Albert Brown, C. A.
Arnold Morphy, F. C. A.	J. M. Lang, C. A.

Plans are being formulated for the 1922 season, and everything points to our Golf Club being an unbounded success. We hope that at the latter part of the season, or at the time of the Dominion Association Convention, a competition may be arranged between our members and those of the Montreal Club.

Yours very truly,
W. K. Colin Campbell,
Secretary.



**THE ASSOCIATION OF ACCOUNTANTS
IN MONTREAL**

(Incorporated 1880.)

James Hutchison, President

Robert Wilson, Jr., Secretary.

THE Association did not hold an Annual Meeting in 1921, owing to the fact that under the new By-laws adopted on the 24th of July last, the Financial Year now ends on the 31st of May. The members holding office, therefore, are those elected at the Annual Meeting held in October, 1921, i. e.,

COUNCIL

James Hutchison, President.	F. W. Sharp.
J. A. Grant, 1st Vice-President.	J. A. LaRue.
A. B. Brodie, 2nd Vice-President.	A. Cross.
R. Wilson, Jr., Secretary-Treasurer.	David S. Kerr.

EXAMINATIONS : Two Examinations were held in 1921, i. e., in May and in December. In May there were twenty candidates for the Final and sixty for the Intermediate. Two, Mr. J. M. Dever and Mr. James Dempster, passed the entire final examination and one, Mr. J. Wilfred Boulet, passed in Theoretical subjects only, having passed the Practical subjects in 1920. Four passed in Theoretical subjects only. In the Intermediate, thirty were successful in passing. The Winners of the "War Memorial" Prizes were J. M. Dever in the Final and J. Harold Webb in the Intermediate.

In December, sixteen sat the entire Final Examination. Of these the following passed in all subjects :

Maurice Chartre	Ian A. Ross
R. H. Kennedy	Frank R. Walker
Louis P. Leduc	Percival F. Seymour

The following passed in Practical subjects only, having previously passed the Theoretical subjects :

W. L. Gatehouse	C. G. M. Marrotte
Guy E. Hoult	C. G. Wallace

In the Intermediate, fourteen out of thirty-nine candidates passed. The Winners of the "War Memorial" Prizes were P. F. Seymour in the Final and Basil E. Howell in the Intermediate.

MEMBERSHIP : The Association now has 102 members, of whom 13 were admitted during 1921. It has also suffered the loss of three of its members, Mr. John McD. Hains, a past President of the Association, and Mr. Robert Miller who passed away during 1921, and Mr. Malcolm H. Robinson, whose sudden death took place on the 13th of February, 1922.



THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NOVA SCOTIA

(Incorporated 1900.)

G. Wallace Dickson, President.

H. D. Creighton, Secretary.

THE 1922 examinations will be held in Halifax on May 15th and following days, and the last day on which applications will be received is April 20th.

We are glad to be able to announce that Mr. P. L. McNeill, a member of this Institute, has sufficiently recovered from his long illness to enable him to open an office in the Canada Life Building, in Ottawa and resume his practice.

The Annual Meeting of this Institute will be held on April 25th and the members will dine together on the same evening.



THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF ALBERTA.

(Incorporated 1910)

Frank M. Harvey, President.

Cecil E. Race, Secretary.

SUBJECT to ratification of the Senate of the University, the Board of Examiners has issued the following results of the examinations of the Institute of Chartered Accountants, held in December.

Of the fifteen candidates who wrote the final examinations, six have obtained a clear pass, and have been referred to the Institute of Chartered Accountants for election to membership, as follows : W. F. Bishop, Treasury Department of the Provincial Government ; A. P. McGuigan, of the Geo. A. Touche Co., Edmonton ; J. S. Fidler, of the Geo. A. Touche Co., Calgary ; Richard B. Rushworth, of the Herald Publishing Co., Calgary ; Ernest A. Stockwell, with the Marwick Mitchell Co., Calgary ; Wm. C. Wood, City Comptroller, Calgary. Of these the highest standing was obtained by Mr. A. P. McGuigan, who is therefore awarded the prize for final candidates.

In addition to these complete successes, the following were granted standing upon passing one supplemental each : A. G. Fry, of Edmonton, in Auditing and Investigations ; Wm. Donaldson, of Calgary, in advanced Bookkeeping No. 3. Three others were granted the privilege of writing upon two supplementals, to complete their standing ; C. S. Kilgour, of Edmonton, in Advanced Bookkeeping No. 3 and Auditing and Investigations ; L. H. Goaetz, of Edmonton, in Advanced Bookkeeping No. 1 and Advanced Bookkeeping No. 3 ; D. A. Ross, Calgary, in Advanced Bookkeeping No. 3 and Auditing and Investigations.

Intermediate Examinations

In the Intermediate Examinations there were eighteen candidates, of whom two passed with honors, four others passed, five were granted one supplemental, and four were granted two supplementals, and three failed.

Those who passed with honors were : Arnold J. Anderson, articled with Harry O. Patriquin, Edmonton ; P. D. Leslie, with Eric Richardson, C. A., Calgary. Mr. Anderson also wins the prize for the highest standing in the Intermediate Examinations.

The other successful candidates were G. D. K. Kinnaird, with Kinnaird and Henderson, Edmonton ; G. P. Ponton, with Harvey, Richardson, Cole and Robertson & Co., Edmonton ; Chas. A. Latham,

with Edwards, Morgan & Co., Calgary; Edward C. Mapson, with Geo. A. Touche & Co., Calgary.

Granted Intermediate standing upon passing one supplemental: E. S. George, Edmonton, in Mathematics; A. West, of Edmonton, in Auditing and Mercantile Law; J. G. Gemmell of Calgary, in Bookkeeping No. 2; K. J. Morrison, of Calgary, in Mathematics; E. R. D. Porter, of Calgary, in Mathematics.

Granted the privilege of two supplementals to clear record: A. W. Bell, Edmonton, in Bookkeeping No. 2 and Mathematics; Ernest Henderson, Edmonton, Bookkeeping No. 1 and Mathematics; S. S. Nelson, Calgary, in Bookkeeping No. 1 and Auditing.

CANADA AND FOREIGN AFFAIRS

Professor Skelton, of Queen's University, the biographer of Sir Wilfrid Laurier, delivered to the Canadian Club of Ottawa recently an interesting address upon "Canada and Foreign Policy," in which in the presence of the premier and several of his ministers he raised some very important and arresting questions. Professor Skelton traced the history of the gradual steps whereby Canada had assumed more and more control of her foreign policy, and he accorded great credit both to Sir Wilfrid Laurier and Sir Robert Borden for the promotion of a healthy growth in Canada's status and a steady insistence upon her national rights. He touched upon the doctrine of dominion neutrality which, when suggested by Laurier had aroused such vitriolic criticism, but which he proved by the projected terms of the Anglo-French pact was now being contemplated on both sides of the Atlantic as a desirable possibility.

Mr. Meighen's resistance to the renewal of the Anglo-Japanese alliance was strongly commended by the speaker, but he dealt out a severe measure of criticism to other aspects of the late government's policy in imperial affairs. Recognition of the separate status of Canada, as a nation, had been won by Sir Robert Borden during the war years and recognized at the signing of the peace treaty, but in Professor Skelton's view it has been weakly abandoned.

Sir Robert Borden had been allowed to go to Washington not as the representative of Canada, but as a member of the British Empire delegation. He was disinclined to put the blame for this on the shoulders of the United States government and he drew attention to an interesting incident at the Washington conference, which reveals the difficulties and uncertainties of the present situation. In a discussion upon the "open door" policy in China, Sir Robert differed from the other members of the British delegation, and it was stated that in the views which he put forward he represented only the opinion of Canada and not of the British Empire.

Professor Skelton's exact words referring to Sir Robert Borden at Washington were: "If Sir Robert Borden does not speak for

Canada at the Washington conference, and if he does not speak for the British Empire, then whom does he speak for? It is a most unfortunate position for him to be in."

Evidence of Retrogression.

But the strongest evidence of retrogression in imperial policy Professor Skelton found in Mr. Lloyd George's speech in the debate on the Anglo-Irish agreement. In its course the British premier ventured to define dominion status and incidentally the relations of the various British units in respect to foreign policy. He argued that as the result of the decision of the last imperial conference the dominions had been admitted to a share in the control of foreign policy and had thereby also assumed a common responsibility.

The events of the war had really given a death blow to the idea of centralization, by showing that the conduct of war operations could not be disentangled from domestic policies. The administration which had to look after the one had also to direct the other. A large part of foreign affairs now concerned questions like trade and immigration and as the dominion governments had no intention of abandoning control of these spheres they must as a corollary retain control of their foreign policy. By all means he said let there be periodical conferences upon issues of common interest and let there be every effort made to form a working plan of reasonable co-operation in vital matters. But he thought that the situation as left at present was highly unsatisfactory and that an early opportunity should be taken of reasserting dominion rights to regain a full control of their own foreign affairs.

How Things Stand.

As things stand today, Canada is committed to full responsibility for every act and consequence of British policy in Europe, and to judge from the criticisms uttered by British politicians and papers upon that policy it has some highly dangerous aspects, though in recent weeks there have been welcome signs of an improvement for it. It was now, Lloyd George said, assured that the whole weight of the British Empire would be thrown behind any foreign policy to be followed. But in another significant passage he declared that for the determination and execution of British foreign policy "we have the machinery here, the foreign office, the ambassadors. That machinery must remain here."

Real Responsibilities.

Professor Skelton felt that too little attention had been paid to this most categorical declaration, which, in his view, reversed the whole tendency of developments during the last forty years. He wanted to know if this retrograde arrangement had really been agreed to by the dominion premiers last June, and if in that event they could show any mandate for turning over the management of their external affairs to Downing Street in exchange for the nominal privilege of formal consultation at intervals. In return for a control

which was largely mythical we were involved in responsibilities which were very real. Professor Skelton contended that he was still an unswerving opponent of imperial federation. He would prefer the establishment of a real imperial cabinet and parliament such as Mr. Lionel Curtis and others have strongly advocated to the arrangements now, according to Mr. Lloyd George's version existing, which give us centralization in the least acceptable and most dangerous form.

Policy For Each Nation.

He examined at some length the question of what exactly constituted foreign affairs and argued that each country had a different set, chiefly bound up with their relations to their nearest neighbors. In his view the foreign affairs of the British commonwealth could, without danger or difficulty, be separated into distinct compartments and each government could devise and pursue a policy suited to its own problems and special relations. He quoted with some approval Sir Robert Borden's definition of the empire as a disorganization rather than an organization.

Professor Skelton discussed the question of our treaty-making powers in special reference to the proposed Anglo-French treaty. He discerned the probability of a parallel development to what happened in the case of our commercial treaties. At first all commercial arrangements made by Downing street with other countries affected Canada automatically, then followed a stage when Canada was allowed to contract out of commercial treaties or was not bound by them unless specifically mentioned and later on came the present stage when she made her own trade treaties. At present in the field of foreign affairs we were in the second stage when we could only be bound by specific inclusion in treaties, though this theory did not square with Mr. Lloyd George's doctrine of common responsibility. The time must soon come when Canada would negotiate all her own treaties.

An Educative Innovation.

Professor Skelton welcomed the participation of Canada in the field of international affairs and thought their projection into the arena of our parliament an educative innovation. But if a successful foreign policy was to be evolved and carried out for Canada, both the press and the general public must pay greater attention to external affairs than they had done in the past and an enlightened public opinion must be brought to bear upon them. Professor Skelton did not specifically urge the immediate holding of the abandoned constitutional conference, but he made it plain to the premier and his colleagues who were present that if they intend to meet the aspirations of a certain school of liberal thought, they must soon begin to send some pointed despatches to Downing street and recover for Canada the freedom of action which she seemed to have won in 1919, but now seems to have temporarily lost. (From Toronto Star)

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CLASSIFICATION OF SURPLUS*

BY C. B. COUCHMAN

ACCOUNTANCY is concerned primarily with two broad classifications. The first of these is called assets and includes all property legally owned and controlled, legally enforceable rights to property and to service and certain other items occasionally included with the assets for specific reasons, such as deferred charges, goodwill and other similar items. The second class consists of the various rights of persons to these assets. This class again divides into two groups, the rights of creditors, known as liabilities, and the rights of proprietors. Incidentally, it is gratifying to note the increasing frequency with which this differentiation between liabilities and proprietorship is definitely displayed upon a balance-sheet.

Proprietors of corporations first acquire such rights because of a contribution of property or of services the value of which is presumably measured by the stock issued therefor. If the assets of a corporation at any time exceed the sum of the amount obtained from creditors and the amount measured by the outstanding capital stock, there must evidently be some credit account to measure such excess. Also there should be some accepted terminology whereby this excess may be designated without fear of misunderstanding. It is in this sense that I am using the term surplus.

It is unfortunate that in accountancy, as in many other subjects, words have been burdened with so many varying meanings. In case of many accounting terms there is no generally accepted usage which can invariably be associated with them. To one man they mean one thing, to another man they mean an entirely different thing. To a cer-

*A paper read at the annual meeting of the American Institute of Accountants, September 20, 1921.

tain extent this confusion of usage applies to the term surplus. In this paper I am using it in its widest sense, that is, to measure any excess of asset value which a corporation may have over the sum of its liabilities and outstanding capital stock.

Also I am considering surplus only from the standpoint of accountancy principles, disregarding certain methods of classification and treatment which are of interest only for invested capital purposes. Our present-day excess-profits-tax law has required certain differentiations in the handling of surplus, such as those arising from revaluations as of March 1, 1913, which would not otherwise have been necessary or desirable. As it now appears that this law will be eliminated after January 1, 1922, I have excluded from this discussion any such classification for tax purposes.

With regard to surplus the accountant is primarily interested in its source, its measurement and its display.

Source

It is desirable that accounting reports shall so classify and display corporate surplus that its source may be readily determinable.

Since surplus forms a part of the proprietorship, it was either contributed to the organization by the proprietors themselves or has been accrued to their credit within the organization.

Surplus may come from four sources :

1. From contributions by the proprietorship.
2. From gifts, awards or contributions from others than proprietors, where no corresponding service or value is rendered or liability created. These are so infrequent as to be negligible in our discussion.
3. From the sale of capital assets.
4. From profits or income earned in the operations of the business.

A fifth classification as to source is sometimes made by applying the term surplus to the amount created by writing up or appreciating the book value of certain assets the ownership of which is still retained. For purposes of completeness I will discuss this so-called surplus arising from appreciations, though I think it is more conservative and more correct to give it some designation other than surplus so that interested parties may not be deceived as to its real significance.

Paid-in Surplus

A balance-sheet should display as a separate item any paid-in surplus as distinct from surplus accruing within the organization. This paid-in surplus may have been contributed by the stockholders at the time of acquiring stock if the stock was issued to them at a premium. If the tangible assets turned in for stock have a value which is unquestionably greater than the par value of the stock issued for them there is created a paid-in surplus. With regard to intangible assets,

however, it is very doubtful if the accountant is ever justified in allowing a paid-in surplus account to be created. If any intangibles are taken at a value in excess of the stock issued therefor the accountant will have to write down the value of these assets or set up the excess as a reserve which shall be used to reduce the assets for balance-sheet purposes and will form no part of the corporate surplus.

If a corporation reacquire its own stock at a discount a paid-in surplus is thereby created. The corporation pays out for the stock a less amount than was originally paid in therefor. These excess assets did not come from creditors nor from the operation of the business. They therefore constitute true paid-in surplus the same as any other surplus contributed by stockholders.

Capital Surplus

Surplus arising from the disposal of a capital asset is of sufficient significance to justify a special designation. This may properly be called capital surplus. At least such terminology is frequently so applied. It is a true surplus like paid-in surplus. It is desirable that it shall be kept separate from the surplus arising from the ordinary operations of the business. Both paid-in surplus and capital surplus are legally available for dividends except in certain cases where such disposal of them may be limited by statute or contract.

Earned Surplus

As to the surplus arising from earnings several differing usages prevail. Some organizations carry to the surplus account each period the net amount of profit or income as shown by the operating statement. From this surplus deductions are then made for any amounts disposed of, such as for dividends. Other organizations carry such profits in an account called "undivided profits," limiting the term surplus to an account to which certain sums are transferred periodically from the first account. This method merely subdivides the earned surplus into two accounts more or less arbitrarily. Some organizations in their annual balance-sheets use the term "undivided profits" to display that portion of the net earnings of the preceding period which has not been appropriated, transferring the undivided profits of other periods to the surplus account.

Portions of earned surplus may be set aside under many distinctive headings to show the purposes for which they are appropriated, such as "reserve for sinking fund" "reserve for betterments," "reserve for new factory." Any reserve set aside for the purpose of acquiring additional assets or for the purpose of liquidating liabilities is probably true surplus and should be grouped accordingly in the balance-sheet.

Display of Surplus

The accountant in his balance-sheet will probably desire to show separately each such subdivision of earned surplus, especially if it be

a subdivision authorized either by contract or by formal action of the board of directors. However, it is desirable that such subdivisions should be so grouped either by indention or otherwise that the total of earned surplus at the date of the balance-sheet may be displayed as a specific item or at least be readily ascertained.

It is also desirable that in the balance-sheet the accountant should display surplus in such manner that the amount available for dividends may be readily ascertainable. All surplus which has been paid in or earned or has resulted from the sale of capital assets is presumably available for distribution as dividends unless it has been definitely appropriated for some other purposes. That which is not available would include any balance of surplus resulting from appreciation of assets and all items of surplus which had been impounded by action of the board of directors.

So far as reserves are concerned, there are only three possible places upon the balance-sheet for them to appear: first, as a direct deduction from assets to which they definitely apply; second, as part of the analysis of the surplus portion of proprietorship; third, as liabilities. If such an item measures a true liability, it is questionable whether or not the term "reserve" should apply to it. One justification might be that such use of the word indicates that while the element was recognized as a true liability, the amount used was an estimate only, as in the case of a reserve for federal income taxes set up on a balance-sheet before the amount of this liability could be definitely ascertained.

Earlier in this paper, I called attention to the fact that there is an increasing tendency on the part of accountants to make a marked differentiation in the display of liabilities as distinct from proprietorship interest. The old-fashioned balance-sheet in which all credit amounts were tabulated one after the other upon the right hand side without marked grouping or classification has given way to the modern balance-sheet wherein the attempt is made to display definitely all those totals of classifications which are of interest to the business world. Liabilities are subdivided so as to show the total of those of a current nature as distinct from those which are of a more permanent nature. The inclusion of capital stock obligations with the permanent liabilities is giving place to the method wherein all proprietorship measurements are grouped together, cumulating in a total which displays in one amount the net excess of all assets over liabilities.

In the case of par-value stock this total will usually consist of the items representing capital stock plus the surplus items, or minus deficits, if there be any. The total proprietorship item above referred to is sometimes given a definite designation such as "book value of capital stock" or "net worth." Influenced by a no-doubt-praiseworthy idea of giving his client full money's worth, the accountant has frequently gone farther than this, and has parenthetically shown

what he alleges to be the "book value per share" which he obtains by dividing this total amount by the number of shares of stock. If the stock is all common, this result probably is correct, but no doubt all of us have seen such display made in balance-sheets which contained both common and preferred stock. Where there are two or more classes of stock differing in their rights and privileges, the calculation of the book value of each share may become a complicated procedure. Careful consideration must be given to the relative interests of each group of stockholders in each classification of surplus. For instance, preferred stockholders may have no dividend rights whatsoever in paid-in surplus, if such surplus came from the common stockholder only. The amount of earned surplus applicable to preferred stockholders will depend entirely upon the character and amount of the preference, whether cumulative or non-cumulative, whether participating or non-participating, and the amount which has already been paid to them in dividends since their preference became effective. Unless the question is one specifically applicable, I doubt the value of the effort such a display, to be correct, would necessitate.

Appropriated Surplus

Surplus fundamentally represents a fund which is under the direct control of the board of directors of a corporation save in certain instances, such as corporations of a financial character, where this authority is limited to some extent by statute. At times this authority may be further limited by contractual relations, such as bond issues wherein sinking funds are required to be set aside out of earnings. Aside from these limitations the boards of directors have practically free control over the surplus. By vote they may set aside certain portions of it for certain purposes, such as reserves for new equipment, reserves for contingencies and other reserves of a similar nature, thus impounding that amount of surplus and rendering it non-available for dividend purposes. This impounding is often more apparent than real. Usually by vote of the board they may reverse any previous action unless other persons are definitely a party thereto. Because a board of directors has set aside a certain amount as a reserve for improvements is no guaranty that this reserve will be continued, for at a later date the board may again by vote turn this reserve back into the general surplus fund.

I think that this point is worthy of emphasis, as it is frequently overlooked by business men. In fact one occasionally finds business men who are under the impression that the very term "surplus" involves a certain impounding or limitation of distribution. Many business men who separate earned surplus into two accounts, one being called undivided profits or a similar name and the other designated as surplus, intend to convey the idea that the account called surplus includes amounts which it is their intention to retain in the business and that the giving of that name surplus serves notice to all

concerned of such intention. At the present time the term surplus is used in such a variety of ways that it may or may not give to the observer any such idea as the one intended by these men.

The question naturally arises as to whether or not it is desirable to indicate any such impounding. If a corporation on December 31st displays a balance-sheet showing a very large surplus and on the strength of this balance-sheet borrows certain sums, there is in reality nothing to keep it from immediately thereafter greatly reducing this surplus through dividends. If the directors should take such action it might be held that they have in a sense deceived the lenders of this money even though they remain technically within their rights, both as to law and accounting. Because of this it might seem desirable to adopt a certain terminology for the funds which were intended to be withheld from dividends so that the mere use of such terminology would be more or less definitely a pledge on their part to retain these funds for the use of the business and for the protection of creditors.

Such a definite impounding of surplus might at times prove undesirable, as occasion might arise when their credit would be greatly impaired and therefore their creditors' rights be imperiled, unless dividends should continue to be paid regularly, and it might be that such dividends could not be paid without using some of this surplus, which, though rightfully available for such purposes, had been arbitrarily impounded at some preceding date. I feel that this matter is one which deserves much study and consideration on the part of accountants.

Surplus From Appreciation

Many organizations owning certain capital assets whose market value has greatly increased since they were acquired seem unable to resist the temptation to add this appreciated value to the book figures representing these assets. The credit amount thus created should not be merged with items of a different source but should be credited to an account called "surplus from appreciation." If this be properly displayed upon the balance-sheet and be definitely separated from other classes of surplus, there is no reason why anyone should be deceived by it. A very important point in connection with this item is frequently over-looked. Accountants find that many clients in depreciating such appreciated assets treat the whole amount of this depreciation as a deduction from income. Unfortunately accountants have frequently failed to correct this error. Such depreciation must be divided into two parts. So much of it as applies to the cost of the asset may be properly considered as a debit to income, but the portion of it which applies to the appreciated value must be deducted from the amount of surplus from appreciation.

A certain corporation as a result of an appraisal wrote up its assets several million dollars. Because of the circumstances this writing up was tolerated by the accountant. However, if the proper

amount of depreciation of this increased figure based upon the estimated remaining life of the assets had been charged against income it would have displayed a result which would have greatly injured the credit of this organization. Such result would have been incorrect also, as it is contrary to accounting to withhold from profits for purposes of replacement amounts in excess of the cost of the items replaced. The amount of this annual depreciation was divided into two portions bearing the same ratio as the excess of the assets bore to the amount of the appreciation. The first of these portions being debited to income was sufficient to extinguish the cost value of the asset at the expiration of its period of usefulness. The other portion being applied annually to the surplus created from appreciation reduced that amount to zero at the same date. Not only was this correct but it was logical. It withheld from profits for purposes of replacement an amount exactly equivalent to the cost of the assets. It allowed the assets to stand upon the balance-sheet at their appraised value during their usefulness, and it amortized the surplus created from the appreciation over the period of the useful life of the assets so appreciated.

Donated Stock

One frequently finds, especially on the balance-sheet of a certain type of organization, surplus arising from the donation of capital stock. This account may be strictly correct, but one frequently finds that it appears at an overstated amount, due to the fact that it has not been reduced by the discounts resulting from the sale of this stock, or that it is of such a character that instead of appearing as a surplus item, it should have been used to write down the book value of the assets which were received for the original issue of capital stock. Usually it may be assumed that the donation of capital stock, if it follows immediately after the issue of such stock, is itself an indication of the fact that the assets for which the capital stock was originally issued were taken in at an inflated value. Such donated stock being listed as an additional asset results in a credit account carried under the name of stock donation or some similar terminology. As the donated stock account is converted into cash or other equivalent assets, any difference because of discount should ultimately be applied to reducing the amount of the stock donation account. When the stock is finally disposed of, the adjusted balance upon this stock donation account will presumably measure the net asset value resulting from this donation. If at this time it is evident that the original assets were inflated, this inflation should be eliminated by a proper reduction on the one hand of the book value of such assets and, on the other hand, of the stock donation account. If this is not done, all or a part of this stock donation account will measure, not true assets, but a mere book inflation of assets, which would be contrary to sound accounting and to conservative business policy.

However, if the deflation above referred to has been properly accomplished and the original assets have been written down to their

correct value, there may still remain a balance in the stock donation account. If so, this balance is true paid-in surplus, as it represents a contribution by the stockholders of actual asset value in excess of the capital stock issued therefor.

Non-par Stock

The stock which is issued without par value is still so new in the business world that very few definite principles regarding the handling of the accounts which represent it have been evolved. This is especially true with regard to the element of surplus in its relation to non-par stock.

It is quite generally accepted that the amount paid in for such stock shall be credited to the non-par stock account, and that undistributed earnings applicable thereto shall be carried in surplus accounts the same as for stock of a par value; but beyond this we find very little uniformity in practice. It has been held by some that any surplus attaching to non-par stock might be credited at once to the capital account, on the theory that the very purpose of the non-par stock is to show unit ownership only, without differentiation as to contributed value and earned value. Such treatment, however, would be questioned by an accountant. He would hold that such differentiation is essential for statistical purposes at least and would retain the capital stock account as to the measure of the value of the contributed assets.

Stock of no par value, just as par-value stock, may be reacquired by the organization at a price differing from its original issue. In such case, there is created an element affecting surplus. The re-purchase of such stock at an amount in excess of the assets received for its issue reduces surplus accordingly. In like manner, surplus is increased by the re-acquiring of stock at a price below that of its issue. Such surplus becomes a paid-in surplus, even though it applies to a stock which has no par value.

If non-par stock is issued for variety of prices, as may readily be true where its issue covers a long period of time during which developments have taken place that justify a constantly increasing price for the stock, the capital account at any time divided by the number of shares then outstanding gives the average value for all stock issued. Whether such average value should be used in the determination of the premium or discount on re-acquired stock or whether for this purpose one should use the price at which the particular shares re-acquired were issued is a debatable point to which accountants will probably give further consideration before any definite rule will be adopted.

Consolidated Surplus

In consolidating the balance-sheets of affiliated or subsidiary corporations the asset item of investment representing the purchase of stock in subsidiaries must be eliminated, and in its place will

appear the actual assets and liabilities of the company whose stock was purchased. The amounts so substituted may not agree with the purchase price. In fact they seldom do agree. Any difference must necessarily affect the consolidated surplus. If, in lieu of the investment asset, net assets of a greater book value are brought into the balance-sheet, the surplus account will be increased by the amount of this excess. In like manner it would be decreased if the substituted net assets were less than the investment asset.

This change in surplus represents the net earnings or loss applicable to the investment and accumulated since the date of its purchase. For, presumably, any difference between the purchase price and the book value of the net assets so acquired at that date is covered by an adjustment of the consolidated goodwill account. This latter adjustment was discussed very thoroughly by Mr. Webster in his paper before this institute a year or two ago.

Also in consolidating balance-sheets, surplus may possibly be affected by adjustment of intercompany items and the elimination of intercompany profit in the inventory.

Measurement

While it is theoretically true that the accountant should analyze all surplus as to its source and so display it, yet, questions frequently arise as to whether or not such classification is accurate. For instance, if a capital asset is sold for more than its book value is this excess a capital surplus? May it not be that this excess was due to the fact that too high a depreciation had been taken in the past? If so, the earned surplus has suffered to that extent. May it not be that all or a part of this so-called capital surplus is nothing more than an adjustment of the earned surplus account?

Again if the asset sold was one that had been contributed for stock originally, might not this excess really be paid-in surplus which the organization failed to recognize as such at the time of its contribution? Is it not true then that few, if any, of our classifications or our measurements are absolute? Is it not rather the fact that we are striving continually toward the truth rather than that we have been able exactly to reach the truth? There are very few statements of absolute facts in accountancy reports. In most cases the best that we can hope to do is to come as near to the truth as we are able, recognizing the fact that this is a progression which has no stopping place.

No matter how completely the sources of surplus have been traced by the accountant, and no matter how intelligently he has displayed these classifications, there remains the vital fact that the value of his classification and display depends upon the accuracy of his measurement. What is the measurement of surplus? We have indicated that surplus is the excess of assets over the combined liability and outstanding stock of a corporation. The measurement is then determined by the measurements of these other elements upon

which the surplus depends. Surplus is not an element in a business the amount of which can be measured within itself or measured independently of the other elements of the business. One may perhaps determine the amount of cash of an organization or perchance the amount of a certain class of liabilities without consideration of the other balance-sheet elements. This is not true of surplus. Surplus then is not an element distinct within itself but instead its value depends upon the combined measurements of all the other balance-sheet factors. The valuation of surplus therefore carries one back immediately to the valuation of assets. If a business man should ask any of the members of this institute to advise him as to this base of asset measurement the answer would no doubt be very definite. He would be told that any chose-in-action should be valued at its face value less a reasonable reserve for non-collectibility; that inventory items should be valued at cost less any market depreciation that may apply to individual items. He would be told that fixed assets should be valued at cost less reasonable depreciation. These bases sound very logical and conclusive, but every one of us who practises accountancy has faced numerous problems where it has seriously stretched our sense of justice and of accuracy to apply these rules. There are many points constantly arising which do not seem to be fully covered by them.

In Chicago a certain organization bought a tract of land many years ago for a price which now seems ridiculously small. Today this land is unquestionably worth a million dollars instead of the one hundred thousand paid for it. The directors desire to build an office building on that site and to float bonds to provide the funds. They call upon you for a balance-sheet. How are you going to display that real estate? Shall you accept the valuation of the real-estate experts and record it at a million dollars, thus dumping \$900,000 into surplus, or shall you insist upon valuation at cost? If you record it at cost are you displaying with any degree of accuracy the real asset value of this corporation? Of course, they may form a new corporation and sell the real estate to this new corporation for a million dollars. In auditing the new corporation we would unhesitatingly value the real estate at cost, that is, at one million dollars. In reality are the assets of the new corporation worth one penny more than the assets of the old corporation? Have they by the juggling feat of establishing a new legal entity actually increased the valuation of their assets by 900%?

On the other hand if we accept appraisal instead of cost as a basis of valuing our assets, then what is there left in accounting that would be dependable? Every man's assets would then be listed at as much as some alleged expert might estimate that they were worth. Balance-sheets would cease to have any dependability. Some might perchance hold that we were justified in tabulating that Chicago real estate at its present value because it had been purchased say fifty years ago but would not consent to such appreciation if it

had been bought say last year. With such a theory the question naturally arises if it is correct to accept a revaluation after fifty years but not after one year, at just what point between those two dates does the dividing line apply? After just how many years does an illegitimate procedure become legitimate?

Let us take another illustration. An organization which has developed many patents and processes may through their operation make a very large income, yet carry very few tangible assets. There are many such organizations whose annual income is several times their total tangible assets. Such an organization desires to borrow money at the bank, and asks you to prepare a balance-sheet. You list only the tangible assets but the directors say, "Here are our patents, our goodwill, what about them? They are worth millions to us." The accountant says "You can list them only at what they cost you.. You may capitalize the expenditures for obtaining patents, for advertising, etc., but that is all." It is difficult to convince that organization of the logic of the accountant's position. Usually before he is through convincing his client the accountant himself begins to doubt the logic of his own position. He realizes that he is illogical in valuing at cost assets in one organization which may have very little real earning power or usefulness to anyone and refusing to give any value to the accumulated results of the creative efforts of the organization just discussed. But he solaces himself by the thought that if we leave cost as the base of our valuation of assets, then where shall we stop? Cost seems to be the only landing place amid the hills and forests of commercial activities where we can make a safe descent. Leave it, and the sky is the limit, and there seems to be no place for us to rest without wrecking our whole scheme of value. These illustrations could be multiplied indefinitely but perhaps these are sufficient to indicate the fact that we have not as yet reached a perfect basis of valuation. The accountant is the last man who should drop conservatism and the last man who should become radical and depart from an essential procedure until he has discovered one which is better. But on the other hand he should also be the last man to be content to accept any basis as final. The accounting profession must devote much thought to the developing of greater flexibility in the rules of asset value without sacrificing fundamental principles. Don't ask me how this can be done. It is not a matter for any one of us or two of us to solve, but it is a question to which the accumulative efforts of the profession should find a satisfactory answer.

The measurement of surplus then depends upon the measurement of the elements which create it. Every adjustment in the valuation of any element affects surplus. Every change in the method of determining the book worth of an asset affects surplus. Every variation in the accumulating of nominal elements or of policy in carrying a deferred charge affects surplus. Properly to determine the amount of surplus

of a complicated organization involves a knowledge and a practical application of nearly every rule and principle of accountancy, and many of these are as yet indefinite or indeterminate.

A study of any phase of surplus such as earned surplus makes us wonder whether or not we really know its characteristics. Earned surplus presumably is composed of profits that have been withheld from distribution. Why were they withheld? Were they withheld merely through choice or through necessity? Every accountant and every business man knows organizations in which the withholding was compulsory if the organization was to continue. If this withholding is compulsory then is it profit? We have been recording profit as the earnings of an organization which may be paid to the proprietors. Now if these amounts which we display upon our statements as earnings can not be paid to the stockholders without damaging the business, are they really classifiable as profits? How many organizations do you know which pay out in dividends all that the accountant shows as net income? Very few. They usually state that it is conservative to withhold a portion of this net income for one or the other of well-established reasons.

It is not my intention to announce that I am ready to discard our definition of net profit or that I advise an organization to pay out all of its net profits as dividends. Instead I am trying again to emphasize the fact that even such elements as net profit which we are sometimes prone to regard as well defined in the accounting world—even to these, we as accountants must give constant consideration, must study them carefully, if we would aid in bringing our profession a little nearer to the true and correct presentation of the essential elements of business activities and to fulfil as accurately as we can the function which the business world expects us to fulfil.

(From The Journal of Accountancy)

COSTING IN RELATION TO SCIENTIFIC MANAGEMENT*

BY J. H. H. BOYD

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The Chairman said that they had received a disappointment, having had a telegram from Sir Herbert Austin regretting his inability to attend. It was customary for the chairman to make a few

*A lecture delivered before the Industrial Reconstruction Council in the Hall of the Institute of Journalists, Tudor Street, London, E. C., on 13th May, 1919, Mr Baker in the chair.

remarks, but they were dropping that on this occasion, and he would ask Mr. Boyd to give his lecture.

The lecturer said :—

It must be a source of gratification to everyone who has taken an interest in this very important question of scientific management to find that the Industrial Reconstruction Council have made it a part of their program.

In this country we are today passing through a period of industrial unrest. There may be divergencies of opinion as to the cause of this, but there can be no difference of opinion as to the necessity for earnest endeavor being made to find a cure.

It would be placing the claim very high to say that scientific management is, in fact, this cure, but it is not going beyond the mark to say that scientific management is one of the most important factors in the cure.

The whole subject of scientific management is intensely interesting, as doubtless those who have attended the previous meetings will have found, and the fact that six different meetings have been arranged to deal with the subject indicates at once the amount of ground which has to be covered before one even gets a grip on really what is meant by the term.

As far as I am concerned this evening, I have to deal with only one of the elements in scientific management—namely, the recording and the use of costs.

There is always a difficulty in handling a subject of this kind, as one is compelled to choose between two courses. That is, a particular form of costing (or cost system) may be described in detail, or one may talk along broad lines avoiding all detail.

The first method is open to the objection that it involves details of routine and the display of forms, graphs, diagrams, &c., and may leave the impression on the hearer's mind that while the system illustrated might be all right for specific business, it would be useless for the hearer's particular business. In an endeavor to imagine how a particular point would affect a particular business, the hearer may easily miss the main points of principle.

The alternative is to deal only with the broad principles on which any costing system must be founded if it is to properly fulfil its functions, and then to outline what are the main functions.

This method is liable to raise a doubt in the hearer's mind as to whether the theory can be carried out in practice, unless, of course, the hearer has knowledge of the utility of cost records.

As I have decided to deal with the subject on theoretical lines, I will anticipate this criticism by saying that I promise not to make any claim for a costing system this evening which I have not actually experienced or investigated, or which I have not seen fulfilled in practice.

In addition, if time permits, I will give one or two examples of results obtained by scientific management, using a cost system for the purpose of centralized control.

Costs as a Part of Scientific Management

Briefly I think costs are the foundation on which scientific management must be built. They enter very largely into the whole structure, and finally they supply the roof. At first sight it might appear that this is a somewhat exaggerated claim, but if we consider what actually happens we may see that, after all, it is quite true.

As long as money remains the medium of exchange, all that is done in business must eventually be expressed in terms of money.

A manager may be an excellent technical man, but he does not, in fact, build his reputation on his ability to do certain technical duties personally, nor does he create much of an impression by showing his directors how well his factory or his office is laid out, if he cannot show that all that he is doing is leading to increased output and, through that, to reduced costs. This is especially true today, when he is faced with ever increasing cost in wages and material. The manager of today must be more than ever the guiding hand of the whole effort, and not the personal supervisor of petty details. Others must handle details for him ; but he must have facts put before him clearly and concisely, so that he may know in his office that the whole work, from the foreman to the apprentice, is running smoothly and efficiently. A costing system properly based, run, and used, will produce all that he requires for purposes of control.

Before inquiries into the other subjects included under the general heading of scientific management are begun there must be some proof of the necessity for the inquiry. It is perfectly true that one may go into, say, a factory and, by looking round, see the need for improvement, but one cannot gauge the extent of this need until one has it down in figures, and those figures are best obtained from a series of records—commonly called a cost system—which is designed to obtain information regarding output, wages, prices of material, efficiency of performance, &c., and all these facts must be known before one can get a good start on the reconstruction of a business.

Having laid the foundation for improvement in the business by means of careful study of the various elements, it is necessary to have records to show the effect of the introduction of the new methods and to ensure that suggestions are actually being carried out and maintained, and the only way in which this can be satisfactorily done is by having those records so designed that they can be used to record progress right on the spot. The manager should have placed before him, each morning if necessary, brief statements or graphs which show at once all the salient points calling for his attention, and he can thus keep in constant touch with the progress of his reconstruction.

Having introduced new methods, and having established a system

of recording all the necessary details to enable a close grip to be kept on the running of the business without the necessity for personal supervision of the actual work, the man responsible can cap all his efforts by showing in hard facts and figures the progress he has made.

The foregoing, although brief and described in somewhat general terms, will, I hope, serve to show the necessity for and the use of the proper recording of costs in the reconstruction and control of any business. I venture to say that the introduction of an efficient cost system into any business where one does not already exist, or where the present one is unsuitable, will almost invariably raise the question of the necessity for inquiry into methods, &c., and ultimately lead to some form of reconstruction and improvement.

Costs Definition

Now let us look at what we mean when we speak of costs. The word "cost" is very like the word "clerk," inasmuch as it does not convey any definite idea in itself. I have, therefore, prepared a very simple diagram in the shape of an addition in arithmetic.

Wages Cost
Material Cost
<hr/>
Fundamental Cost
Direct Cost
<hr/>
Prime Cost
Departmental Overall Cost
<hr/>
Total Departmental Cost
Administration Overall Cost
<hr/>
Total Cost

It will be seen that the first little sum shows wages added to material, giving a total of fundamental cost. Fundamental costs are costs which can, in fact be recorded with accuracy against the operation on which they are actually incurred.

We then have fundamental cost added to direct cost, giving prime cost. Direct costs cannot be allocated with accuracy to any particular operation in a piece of work, but they can be charged direct to the whole of the particular work, and, when added to the fundamental costs, they give prime costs, which are the costs that can with certainty be allocated directly to the work.

Prime cost added to departmental overall cost gives total departmental cost. Departmental overall costs are costs which cannot be charged with accuracy to any particular operation of piece of work, but which can be charged to a particular department.

We then have total departmental cost added to administration overall cost, which gives total cost.

Now, I think, we can be quite clear on what is meant when we speak of costs, and it will be seen that those headings cover all the costs which enter into any business.

The actual term used is of no real moment—for instance, “overall costs” may be more commonly known as “overhead charges,” “overhead cost,” &c.

Unit Costs

I can imagine someone saying, “Well, that is all right, because I already have a record of all these costs. I have my pay sheets, which show me the amount of money I have spent in wages ; I have my Purchase Account, my Stores Balance Sheets, and my Cash Accounts, &c., which show me the amount of money I have spent in all these other things.” That is true ; one can get from any good system of financial accounting all these items, but what one does not get is a grip on whether the amounts which have been spent have been wisely spent. That is where the cost system comes in. From a control point of view it is useless knowing only the bulk expenditure. One has to get the expenditure split up and identified with specific units of work and the information must be available as the expenditure is being made or immediately after it has been made, instead of some considerable time after the money has been spent. As an example :—

A firm building motor-cars would not derive much satisfaction in knowing that after they have made a 100 cars they have spent too much in wages, materials, &c. If they were in keen competition and had to watch carefully the price at which they had to sell the car, then it would be necessary for them to take each particular part and keep a day to day grip on what it was costing them to make each part, so that they could be assured that when the parts were finally assembled and the car produced ready for sale they would not be in the position of having to raise the price of the car or lose money on the transaction without having had the chance of doing something to reduce the cost.

The points to be noted here are :—

- (1) Bulk or total costs are insufficient for purposes of control.
- (2) Costs must be built up from fundamental cost to the total cost.
- (3) Work must be carefully examined and separate records of costs prepared for each operation or group of operations.
- (4) The costs for each operation (or group) must be related to appropriate units of work.
- (5) Certain costs may, in the first instance, be controlled by units of service rendered before being added to costs expressed per unit of work—for instance, rents, lighting, &c.
- (6) The cost records, whatever their shape, must be the telegraphic advice keeping the manager posted on what is happening day by day. Cost records must be “business news.”

(7) The preparation of statistics is often looked upon as a system for controlling costs, but there is this vital difference between the two—statistics are simply “business history.”

Use of Costs to the Manager

Let us look now at what a good costing system means to a “live” manager. Time will not permit of my dealing with every point in this connection, and I will, therefore, content myself by taking a few of the principal uses of a costing system.

Imagine the manager as a traveller in a foreign country—a costing system is his map directing him in the right road to travel to reach certain points.

As captain of the ship, the costing system is his chart guiding him into safe channels and warning him of dangerous rocks.

As a general at headquarters, the costing system is the observer who by means of plans, diagrams, and figures, shows him the weak spots and indicates the points of attack.

A costing system enables the manager to make a diagnosis of the business and have diseased parts removed by his practical men or his experts.

It is an indicator as to the necessity for action, and it also shows him whether the necessary action has been taken and whether it has been effective.

Elimination of Waste

One of the principal uses of the costing system is that it assists in the elimination of waste, which, after all, is the essence of scientific management. As a matter of fact, the introduction of a costing system into a business will, in itself, eliminate waste in wages and in material, &c., simply by introducing the necessity for writing down why and where the expenditure has been incurred. When this is done in conjunction with the study of better methods, and the various other items which are included in scientific management, then one gets the combination which, I hope, in the future will be called—not “scientific management”—but just simply “management.”

A costing system may exist and may do good work quite apart from efficiency studies, but the full benefit from a costing system cannot be derived unless the efficiency side is also dealt with, but on the other hand no amount of efficiency work would prove of lasting good without a costing system to control the results.

As an example of where the introduction of a costing system saved money, there was certain work on which tractors were employed. There was no system of immediate control, but statistics were prepared from time to time showing the amount of work which had been done, and so on. A month or six weeks after a system of job cards and other records was brought into use the average acreage of a tractor per day was trebled, and that without any change having been made in the method of doing the work. The saving was due absolutely to the

elimination of waste time, and the cutting down of the idle time of the tractors.

Again, in connection with a certain small fleet of tractors, the cost of the repairs per week was cut down by 50 per cent., simply by having recorded what repairs were done, why they were necessary, and what they in fact cost.

There was also considerable saving in petrol and accessories by proper stores accounting which formed part of the costing system.

Idle Time

I have already mentioned idle time, but I am giving it a separate heading as I wish to draw particular attention to this subject.

How many managers know the amount of idle time in their works or factory? Ask a manager and he will answer, "practically none." Ask, further, how he knows this, and when he has cooled down he will probably tell you that he has eyes which he uses.

It is amazing how many managers rely on the powers of observation either of themselves or their subordinates to eliminate idle time; but get the idle time actually recorded and it will be found that it is probably much in excess of anything they ever imagined.

The obvious objection is that workmen will not have idle time recorded—that it will be dumped into something else; but the costing system can be made sufficiently complete to prevent time being wrongly allocated.

Chase this idle time! Like the will o' the wisp it may flit from point to point and you may never catch it, but at least it disappears. Kill one moment of idle time and it is added to the productive time of the day.

The proper planning of work and the careful fixing of standards will prove how time can be saved and fully utilized, but it is necessary to have records which will show that all that has been planned in this direction is being carried out, and such records are essentially part of a costing system.

Estimates

A good costing system will keep the manager constantly supplied with up-to-date figures with which he can make estimates and fix prices. There will be no element of uncertainty as to whether his estimate of future expenditure is sound or as to whether a price which he is quoting is too large or too small, when he knows that he is basing his quotations on figures obtained "red-hot" from current work.

Even if the particular class of work for which he is preparing an estimate is not going on at the moment, if he has cost records for similar work done in the past and also records which show the changed conditions in the cost of wages, material, &c., since the work was done formerly, he can prepare an intelligent estimate and feel confident that he is not far out in his conclusions.

Estimates prepared without the aid of cost records must be more or less in the nature of guesswork.

I heard of a case recently in connection with a firm of manufacturers, and by no means an unimportant firm—as a matter of fact their name is practically a household word throughout Great Britain and the Colonies, in connection with their particular manufacture. A customer wrote in giving an order for certain articles to be made and asking a quotation. The request reached the office, a clerk from the office went out into the factory, got hold of the foreman who was responsible for this kind of work, asked him how much he thought it would cost to do the job, took the foreman's word for it, added on a number of different percentages to cover other charges, and then quoted the price. All I can say in connection with that is that I would feel very sorry for the shareholders in this firm if and when they are up against competition. That is a specific case, but I can assure you it is not an unusual one today in many of the various big commercial concerns in Great Britain.

Capital and Revenue

In a business where capital cost and revenue cost are being dealt with, then a costing system is absolutely necessary.

A good example of this is in public utility companies, say railways, gas works, electric supply stations, tramways, telephone companies, and so on. Where capital and revenue work is being carried on day by day, sometimes side by side, and very often by the same gang, then there must be some safe method of allocating the cost correctly to Capital and to Revenue Account if serious consequences are not going to result.

I know that questions of policy very often enter into the decision as to the allocation of certain cost to Capital Account or Revenue Account, but surely it is advisable to get the proper allocation first and make any adjustments which may be necessary afterwards. It is very unsafe to play about with the allocation of cost, as, sooner or later, investigations may be made which may reveal a state of affairs for which the manager may have to accept responsibility. If he has his cost records he can always show just how much of the responsibility is really his.

That matter, I think, is sufficiently clear, and I need not develop it further, but I will just repeat that a good costing system will keep this record as between capital and revenue quite safely.

Depreciation

Fixing proper rates for depreciation and building up records in respect of depreciation are two of the most difficult points in the accounting of any business.

There are several methods of calculating depreciation charges, and a discussion as to which is the best method would require a meeting to be devoted to this subject alone. I think I am right in

saying that any method involving careful study and detailed calculations is generally avoided, and some "get there quickly" method adopted. This may be all right for certain businesses, but where there is a varied plant, and where costs must be solid, the method of calculation should be the subject of serious consideration. To indicate preference for any particular method would probably result in a discussion which would be rather outside the scope of our present meeting. I must, therefore, leave the subject of depreciation with you for your quiet consideration and with the hope that the importance of this subject in modern business will be fully realized.

The whole point, as far as I am at present concerned, is that cost records are necessary to enable the manager to handle this question properly.

Beware the easy so much per cent. per annum method, based on so called past experience without any cost records.

Running Inventory

Many times during the life of a business the question arises as to whether the capital value as shown in the books is, in fact, represented by the assets, and the usual way of checking this is to carry out an inventory. Inventories are frightfully expensive and are not always satisfactory. A well designed costing system, however, can be used to maintain a running inventory—that is, it will record all additions to or subtractions from, plant, &c., in quantities and at the same time will record the effect as far as value is concerned. It is then only necessary to check the book value at extended intervals, and during the time between one inventory and another one can feel fairly happy that there is nothing going seriously wrong.

In a workshop or a factory where all plant, &c., is easily viewed this question of maintaining a running inventory is not very important; but in concerns where there is a scattered plant, and where the physical survey of assets is a difficult matter, an inventory kept automatically up to date is something worth while considering, and it can be accomplished by means of the cost records.

The position of a manager who can say at once that his book values are sound is ever so much stronger than that of the manager who must have an inventory made before he can certify his book values.

Progress Records

It is a common belief that a cost system is only concerned with cost as represented by expenditure of money. This is not right, as it limits the real utility of a cost system which may be made to embrace all records necessary for the manager in the control of the business.

As an example, take records of output; these are absolutely necessary to the manager to enable him to keep a grip on the progress.

Where piece-work rates or payment by results are used, the output per worker must be known for wages calculations.

Where standards have been fixed, output records must be made to arrive at the efficiency per man, per machine, &c., as compared with the standard.

Those output records may be made up quite apart from the records of cost, but it is advisable to have them incorporated in the cost system. There are several reasons for this.

(1) A manager may be entirely satisfied with output as output, but when he sees that to obtain this output he is considerably increasing the cost, he may find it necessary to slow down. To accomplish a huge bulk of work is not always economical, and it is frequently done at the expense of efficiency. If, however, the manager has placed before him the cost, together with the output, he can at once size up the situation.

(2) Workers responsible for compiling output records may have very little interest in the figures, but when they realize that their payment depends on accurate records of the work performed they will take quite a different view. It is always advisable to get output recorded on the time sheet or job card.

(3) The use of standards does not end with the fixing of the standard. There must be some record of accomplishment as compared with the standard set. Standards are set only after careful study, and they have as their object the fixing of a goal which must be reached before 100 per cent. efficiency can be claimed. Behind all this is the real question—that is, cost—and the record of efficiency in performance is, therefore, one of efficiency in cost, and should be included in the cost records.

It will be seen that a cost return or summary, to be complete, should show :—

- (1) Cost in wages, material, &c.
- (2) Output.
- (3) Standard.
- (4) Efficiency.
- (5) Cost per unit of output.
- (6) Any other information regarding hours, &c., which may be considered necessary in any particular business.

Use of Costs to the Workers

Now I come to one of the most important points of all. Up to the moment I have been looking at the costing system from the manager's point of view, and when I say "manager" I mean shareholders, directors, &c., whom the manager represents.

Now I want to look at it from the man's point of view. When I say "man" I mean the worker.

Reading the evidence which was submitted during the recent Coal Commission I was very deeply impressed by the fact that, while

shoals of figures were produced, there was an element of uncertainty running through them all. When a Government witness came along and said that, had his department had certain figures six months ago which they had today, then a levy of something like £25 000,000 would never have been made, he might have gone further and said that the figures which he had today would probably be useless six months hence, because while they might be statistics of what happened six months ago, they are not the facts today, and they would be very much less the facts in a further six months' time. There we have the great difference between statistics and costs. It is surprising to find that these two terms are frequently considered synonymous ; that is a fatal mistake.

Statistics are the history of something which has passed. Costs are the news of what is actually happening at the moment. Statistics may be helpful and interesting, but costs are vital, and, having served their use as costs, may be used again to build up statistics, and because they are proved figures at the time when they are produced their value as statistics is very much enhanced.

I think it safe to say that one of the reasons why statistics have no power of conviction when placed before the worker is simply because they are something which the worker does not grasp, and that is no fault of his. If, however, the worker knew that the figures which were being placed before him were figures in which he himself had produced the fundamentals, and if, in addition, he could be shown exactly what had been added to these fundamentals, then he is looking at something which he can really comprehend.

The relationship between manager and worker is a different thing today than it was several years ago, and it is yet in the state of evolution. Let us do all in our power to avoid this becoming revolution.

The manager is now faced with the choice between friction and co-operative working, and to get into sympathetic touch with the worker he must be prepared to produce his cost figures in such a shape that they can be understood by the worker or his representatives.

It is useless talking "up in the air" when discussing wages and their effect on costs, or shorter hours and their effect on output. Facts are solid and can be produced, provided the necessity for accurate unit costing is realized and met.

Sir Robert Horne, Minister of Labor, in a speech at a luncheon at the Aldwych Club, mentioned that the employers in a certain industry had said that the industry could not stand increased costs. That statement was received as such statements have been received for years past. The men did not believe it. It requires elaborate inquiries to convince people as to the truth.

That is the whole point. If the employers had had their costs properly built up they could without any elaborate inquiry place

before the men the real facts as they are happening today, and the men, I feel quite certain, would at once know that what they were being shown was the truth. The elements of doubt and distrust must be eliminated from the minds of the workers by straightforward dealing with figures of cost.

He mentioned a few things for which the country is striving today to make the lot of the workers better—that is, such things as shorter hours, more leisure, a larger share in the fruits of industry, a measure of industrial control. He further went on to say that the employers were prepared to meet their men with a broader mind, and that the general principles, &c., were clearly recognized by everybody. He then said that one might hope in the immediate future that this new spirit would lead to a system of Industrial Councils on which workmen and employers would be represented, where they would sit round a common table and come to common decisions for their common interests.

I want to say, and say as strongly as I possibly can, that all the good intentions underlying Industrial Councils will be absolutely fruitless unless the facts with which the workmen and employers are dealing are fully understood and fully accepted by each.

As far as wages, hours, cost, &c., are concerned the one way in which to obtain those essential facts is by means of a system of accurately recording the costs on each specific kind of work, so that the employer may talk to each man about his own particular job and tell him what each unit of work in that particular job is in fact costing today. He can then proceed to build up the cost step by step in such a way that the worker will fully realize just how much, or how little, of the total cost is represented by the amount paid to him in wages.

Conclusion

All that we may do, all that we may say, regarding the benefits to industry to be derived from scientific management will be of no real value unless we are careful to see that the accounting system in a business is properly organized. I am not going to discuss what I think is a proper organization, but I would give this word of warning regarding cost accounting.

A cost system cannot be lifted from a book or from one business and placed into another business. Each business must be carefully studied and a system of recording costs adapted to its needs. The system must be built up and not bought ready made. It would be considered rather foolish if a six-foot man bought a ready-made suit of clothes originally intended for a four-foot boy and tried to wear them. That kind of thing is often done with costing systems, and of course, they do not work, and eventually are dropped as useless.

Once a manager has experienced the use of a proper costing system he will never be without one whatever business he may tackle,

and everyone who preaches the gospel of scientific management knows how very important is the accurate preparation and intelligent use of cost records.

The Chairman : I think we are indebted to Mr. Boyd for a useful and very interesting paper. We shall be glad to hear any questions.

Mr. Crossley Jones : With regard to the standards which you put up against your costs, could you give us any idea of the best means of obtaining them ?

A member : I would like to ask if figures are placed before the workers in the way you suggest. It seems to me a new departure.

Mr. J. F. Butterworth : Personally, I should like to thank Mr. Boyd for an eminently sensible and practical paper. I have no question to ask beyond this, in amplification of the methods he has spoken of, whether he has ever heard of the system that is used by many of our American friends, known as graphic control. It consists of a chart on which the various machinery is set out, and it is the duty of a member of the staff to put a small red flag to indicate that a machine is lying idle. He then wants to know how and why, and as quickly as possible. That checks some of the loss of time. Secondly, with regard to his remarks as to railways ; a few years ago the railways in America combined and petitioned the Senate to allow them to raise their rates by some 15 per cent. to 20 per cent., I think it was. This raised a storm in commercial circles, and the result was that the people who were preaching scientific management were able to put before the Inter-state Commission of Washington such a case against the railways that the Senate refused the increase. In other words, they demonstrated to a committee which sat on the subject that if the railways of that country only applied scientific methods there would be no necessity to increase the rates ; inasmuch as the methods they were employing were costing them five million pounds per day. That was proved to the satisfaction of the Commission and the Bill was thrown out. And in connection with that I can mention an interesting fact with regard to our own railways ; a certain American engineer over here had an opportunity of inspecting the locomotive shops of several of our leading lines. I will not mention the names for obvious reasons, but he told me he was astounded to find a difference of no less than 30 per cent. or 40 per cent. in the idle plant. On some lines they had 17 per cent. of the plant awaiting repair. Other lines went up as high as 52 per cent. If that is not a case for inquiry I do not know what is. With reference to his remarks on depreciation, I am at one with him, but I say that if proper standards are adopted in every establishment, machines must be kept in full repair and the difficulty will be minimized and become a decreasing item. Then, as regards output, it may surprise you to know that in some businesses in America the employer has one time-keeper to 32 men. That would give

employers here a fit. They find it pays. It also pays well, because of their polyglot labor, to make up their gangs out of people from one country—a gang of Irishmen, another of Englishmen, and so on ; and they institute a friendly rivalry between them by constantly telling them what the other gangs have done. That is one of the effects of good time-keeping, and letting the men know what is being done.

Mr. Carlin : We all know that some men will do as much work in four hours as others will in six. I should like the lecturer to explain how that will affect his system.

A member : I should like to know if Mr. Boyd has ever experienced an attitude of suspicion on the part of the workers towards cost records.

Mr. Grant : What value are the records going to be unless you know how long the job should take. I mean the records of work done in the factory by the mechanics. I suggest that the only way in which it can be done is by a scientific method of rate fixing, which he seems to have missed out entirely in his lecture.

Mr. Crickwood : May I ask the lecturer to what extent cost systems are in operation in this country. I ask that question because Ed. N. Hurley, head of the Merchant Shipping Board, says that in America 10 per cent. or less of the factories are run on a sound cost system. I should like to know to what extent they are used in this country.

Mr. Clemens : There is one point I should like to ask Mr. Boyd. I understand he had the privilege recently of visiting certain manufacturing in the North of England, and I should like to know what agreements he found in force between the actual financial accounts and the Cost Account. I think he will find, where the cost system is well done, there is a lack of agreement between the financial and the cost, agreement as far as overhead charges are concerned. In other words, they do not always include in their complete cost everything of overhead charges which should be included.

Mr. Elbourne : With regard to Mr. Boyd's lecture it occurs to me that, in referring to industrial unrest, and seeking a remedy for that unrest, he does not diagnose the position as it is today. We are in the midst of an industrial revolution. To use the word "revolution" is not to wave the red flag or use violent methods ; and it is not a question of remedy ; it is a question of direction, and to give it that direction is the duty of every one who has any responsibility in industry. For me to cover the ground traversed by Mr. Boyd in his lecture would detain you longer than it is reasonable I should attempt to do ; but there is to my mind running through this paper a special pleading for the functions of the accountant in charge of the cost accounts that he shall arrogate to himself all statistics. He discredits statistics in general. It seems to me it is a case of special pleading. I

suggest that it is part of a propaganda which has emanated from various quarters to claim for the accountant functions which should be accredited to the engineer, plus the accountant. It is the co-ordinating of the two that is needed. For the accountant to stand up and say he will inform the management what is right and wrong, that he will point out the weak spot, is all nonsense (laughter). They are in this difficulty, that they have no standard except that which is given them by the engineer, and any departure from that standard is something which they are not qualified to criticise. I am not deprecating the value of cost systems, but when output falls per hour they can only point out differences, and I fear there is an attempt to make it an elaborate fault-finding method, whereas what we want is co-ordination. We are today faced with the necessity for real facts. I am entirely in agreement with Mr. Boyd that there is a growing need that costs shall be clearly stated and clearly arrived at. To talk of fundamental and direct costs is confusing. Fundamental costs are costs essential, and overhead management is just as essential as the workmen's wages. It confuses thought to break away from the obvious meaning of these words. If he wants to use descriptive terms he can talk of direct costs and secondary costs, and then his "on" costs. But it is perhaps unfair of me to give you a lecture. It is the first time I have come to these meetings, and while that is my loss you will, I hope, forgive me for taking the opportunity to protest against special pleading on behalf of the accountant. The engineer is to be the "star," and they are to help him. (Hear, hear.) There are many details I should like to discuss, but it would be unfair to you to take up your time.

Mr. Whitfield : I should like to ask if Mr. Boyd has actually placed these cost records before the workers, and, if so, what the results have been.

Mr. Charter : The lecturer said that when figures were placed before the workers they were always received with a great amount of suspicion. I want to ask him if he is suggesting that employees should be represented in the office of the firm for which they work when cost records are being prepared ?

The Chairman : I think most of you know that I am a trade union secretary. Two questions have been asked as to which Mr. Boyd has not had the same sort of experience that I have. I may say that managers do put figures before their workmen, and the workmen are rightly suspicious of those figures. What happens with your costing system ? You send a man down with a watch and he stands over another man watching him work. Now the man who is working is chiefly interested in his job, and in his wages. He begins to exercise his limited imagination and wants to know what is in the wind, because he is afraid that the next thing that will happen will be that he will lose his job. If your costing system is worked on these lines,

he is rightly suspicious. That is not Mr. Boyd's view tonight. With regard to figures, I have had figures put before me by engineers and shop managers at one interview, and I have had a copy of these figures supplied to me privately and confidentially, and for my own use, which were used in a second interview before the commercial management and the chairman of the company ; and the whole job lot denied as being inaccurate. When we have these experiences we are rightly suspicious of figures put before us. You have a knight in the iron and steel industry saying that the cost of producing a ton of steel is 75 per cent. of the cost of the steel produced. That is one set of figures. We are suspicious of them. You have the Iron and Steel Institute telling the country that these men earn £20 a week, and that that is why you cannot compete with Germany or America. The Smelter's Union reply that the cost of producing a ton of steel is only 8d. per ton. Can any sane man say that such a smelting cost prevents you competing with Germany and America ? These are figures ; we can pelt each other with figures like that until further orders ; but all these figures are used to favor some other body. It might be the general public ; it might be the trade union officer or the general manager. It is a game that is played before the public for your entertainment. Mr. Boyd wants to take us one step further and get out the details of that cost, and tell the workman not only how but why ; and when you do that the workman will respect you and your figures. (Hear, hear.) So far as we are concerned we have sufficient standing with the employers that if we demand to see their books they will let us. And what are you up against ? You are up against that accountant who has such an elaborate set of books that no ordinary mortal can fathom what on earth he is driving at. (Laughter.) That is the secret of the profession. They retain it so that you and I cannot enter in. Notwithstanding all that, I am for scientific management and for a costing system ; and in our union. if you come along, you would find us applying this sort of thing. When men lose time we want to know their rate, the time they lost, and we look up the time tables and see that it is just so. That is the kind of thing Mr. Boyd wants. I do not agree with our friend about statistics, because they serve a useful purpose, and I do not think Mr. Boyd objected to their use. But what he says is that you are getting your information from statistics after the fact. You are learning about the failure you know of ; but what you want to know is to get in at the beginning before the failure occurred. I have had a pretty wide experience of meeting employers and on our side we put in accountants to examine the books. Our wages are regulated by the net selling price or net price that the employer receives for the commodity or group of commodities. We are interested in about 50 sliding scales, and we employ outside accountants. Each side pays its quota, and we do not think it would pay those accountants to make an inaccurate return on a matter of

such small importance to them as the net average selling price. We adopt these scientific methods of trying to get right. I am very pleased to be here this evening ; I have been keenly interested in the address, and I am now going to ask Mr. Maurice to move a vote of thanks to Mr. Boyd.

Mr. Maurice : I have much pleasure in moving a vote of thanks to Mr. Boyd for the interesting lecture he has given us tonight. It is the fourth of the series, and I think you will agree with me that it has fitted into its place, and has given us just the information we wanted on this question of costing.

Mr. Atkinson : I have great pleasure in seconding the resolution. I have listened with the greatest interest to this paper, because I am in the midst of introducing a costing system into one of the chief Midland industries. I find there is a lot of ignorance, but I am tackling it. Mr. Boyd mentioned the point of idle time. I have found one great difficulty, and that is idle time. We find that if only one furnace or machine is working in a department all the costs go to that machine. In that department we have ten or twenty, and when they are all working the costs come down enormously, while if one is working it bears the whole cost. That, of course, is wrong. It is one of the things I have a great difficulty in getting on to a proper footing. There is one more question I should like to put. When we get round the table discussing questions between employers and workers, and you find two firms are working together and one is paying 20 per cent. dividend and the other nothing, how are you going to get workmen to understand that state of things ?

The resolution was carried unanimously.

The lecturer : Mr. Chairman, ladies and gentlemen, I wish to thank you very much for having listened very attentively to what is usually an extremely dry kind of subject. I may say that I felt quite in my element when my friend attacked accountants, because the costs man is always in trouble in one way or another ; still, he carries on (laughter). I am taking that point first, because it does want some clearing up. To my mind there are three different kinds of accountant. There are the financial accountant, the stores accountant, and the costs accountant. I have been handling costs for the last twenty years—since I was a boy—in one shape or another, and I have never been attached to any but the engineering or management side ; I was never on the financial side of the business at all. The reason of that is that the engineer is an executive officer ; he has to do certain jobs. The costs accountant is simply there to do all he possibly can to help the engineer by showing him the the result of the work which he is doing. As a matter of fact where I am at present situated all the figures on which the standards are based all planning of work, and all that kind of thing, is in fact produced and done by engineers, but what I want to make clear is that I am quite in agreement that the costs accountant

is quite a special kind of accountant, and that his mind is in all probability two-thirds technical and one-third accounting. If he is doing his job he is there in an advisory capacity and does not, in any circumstance, usurp the executive power of the engineer or of anybody else. I hope that point is quite clear. The point in regard to statistics was quite clearly answered by the chairman.

With reference to the terms I used, if everybody in this room got up and told me what were the right terms for costing, the reporters would be kept here for a long time. Terms are simply a convenience and are artificial. I use terms which I always have employed and which I understand. I have no objection to your calling a thing anything you like, if you know what it means. The terms I used were intended to indicate that I was building up something from the basis to the top.

The first question put, I think, was as to the method of obtaining standards. The first meeting of this series was on "The Determination of Standards in Scientific Management," and I need not apologize for not being able to answer that question fully in the time available now, since a full meeting and discussion were given up to the subject. The fixing of standards is an element in scientific management which requires study as a subject by itself. I brought standards into my paper because they are necessary and must be used in connection with costing. I would recommend the gentleman who asked the question to try and get a copy of the paper which was given at the first meeting. I understand they are available. He will then probably get some idea of how standards are arrived at.

With regard to the big question of the presentation of figures to the workers, it is not a new departure, as the chairman has quite fully put it to you. Figures have been presented to workers, and that term which I used, of suspicion running through the worker's mind, I really got from what Sir Robert Horne said, and he is the Minister of Labor and ought to know something about the suspicions of the worker. I need not refer to any personal knowledge of the suspicion among workers, but I know that it does exist. What I was pleading for was for the facts to be put down as plain as A B C. Costs require quite a lot of thought and knowledge to build up, and one cannot expect workmen, whose duty it is to do the job, to understand figures fired at them. What I am pleading for, therefore, is this, in the introduction of scientific management let us safeguard all these little points and endeavor to eliminate from the mind of the worker that suspicion, or feeling of suspicion—it may not really be more than a feeling; it may merely be that he says "I do not disbelieve you but I have not been able yet to believe you quite." What I want to do is to encourage him to believe and to do it by being honest.

To the question as to whether I have ever tried to use figures in dealing with workers, the answer is "yes." I have found it extremely satisfactory. For instance, the forman would be called in and have

the cost of doing a certain operation shown to him. He would be told, "Look here, John ; you can do that job for such and such money, and yet yesterday you allowed your men to charge it so and so, and so you are losing money to the firm. Why ?" John would then go back and say : "I am not going to be on the carpet again. We are going to buck up and keep up to scratch." You can get the same thing from standards. I have often found, when talking to workmen, that if one can transform the figures into money, money is something he can realize, whereas figures are often rather confusing to him. It is only, after all, a method of expression.

With regard to the question concerning graphic control, I personally am a believer in graphic control, because I can always pick up a point more quickly from a line on a graph than from any method of setting out figures in the form of a statement ; and I think that anybody who has used graphs for control purposes will agree that a rise or fall can be seen at once, and the comparison between point and point can be realized at once, very much more quickly from graphs than from statements. It is, of course, advisable to have alongside the graph a statement of the figures, so that you can find what a point on the graph means in figures.

As to the figures of depreciation being included in the standard, that is true, but the point that I was after was rather the method of recording the depreciation readily in the financial books. You may fix your standard and may depreciate according to that, but you have got to have it translated into money so that it will reach the financial accounts, and I was pleading to do that via the costs, as the figure of depreciation is very important when you get the question of costs.

The next question is as to the elimination of waste in the costs system and as to whether that would not be done by standards. The fact is that, as I said, the full use of the costs system can only be obtained when it is used in conjunction with the institution of better methods, the introduction of standards, and the planning of work. Imagine a factory where no time sheets have been kept and no job cards have been carried and where everybody runs round doing a job in what he thinks is the best way, and the only form of control is that of personal supervision ; if you introduce into that factory a system of time sheets or job cards, even before you have time and bonus standards fixed, you will get a certain amount of elimination of waste time, simply because a man has to write down what he was doing. That is all I say. I do not say that that is the limit of a cost system ; I say it will do that incidentally. The full use I have already explained.

Then a question was raised as regards rate fixing being an important point. As a matter of fact, all these points are very important. If you had to fix rates, the first thing you would have to do would be to get standards. The question of rate fixing, however, does not to my mind, come under the heading of "Costing." Had I

been dealing with Lecture No. 3 I might have got on to rate-fixing, but, as I am confined to Costing, I cannot touch it. It is not because I do not know it or want to avoid it, but it is not in the lecture.

Then there is a question as to the extent to which costs systems are being used in this country. That is a question which it is difficult to answer, because it would require more knowledge of what is going on in the country than I have got, but as I have said, in that tour which I made I found that efficient costs systems were very very rare. I do know that good costs systems are in operation in this country in certain works, but I do not know that costs systems are in full operation throughout the whole of any particular industry. I feel, after the inquiries I made, that there is a very big necessity in this country for an awakening on this question of scientific management, of which costing is only one small part.

Then there was a question as to including all costs in the Costs Accounts. That is absolutely necessary. There must be a reconciliation between the Financial Accounts and the Cost Accounts. The latter must show that they have had through them in detail all the money which is said to have been expended by the business in the course of a period. If the Costs Accounts cannot be—and are not—reconciled and balanced with the Financial Accounts, there is no guarantee that the cost being produced is the real cost. As to the question of idle machinery, I rather think that our friend who spoke about the red flag on the graph rather got that point, but in any case the way to cope with idle time in machines is to take the number of machines you have and the amount of work you are doing on them ; fix your standard, record your output ; compare the two, and then find out why it is that you are not getting the required output from the machines. If you get your costs records built up in such a way that you have included in them the standard set and the output, giving then the efficiency and also the cost per unit, you have all the elements, so far as I see, which will show up at once any idle time, either of machines or of men. I cannot say at the moment what more is required to cope with idle time. The output record could do that, or the efficiency as compared with the standard set for the workshop.

So far as I have noted, those seem to be the principal questions that were raised and I simply wish to close by again thanking you for listening and, having listened, inwardly digesting what I have said. Now, having thought the whole thing over, I hope you will go ahead and do something. (Applause.)

The proceedings then terminated.

(From The Accountants' Journal).

D. A. C. A.

Halifax will welcome you to the Annual Meeting of the Dominion Association, August 8th, 9th and 10th next.

HEAD OFFICE ACCOUNTING METHODS

By A. Whitehouse of Ames, Holden, McCready Ltd., Montreal.

Accounting practice in nearly all large business enterprises of this continent has developed during the last fifteen years toward centralized methods, and our Company, with its subsidiary companies, has chosen this plan as being the most efficient.

Centralization, whilst it has defects, has many compensating and obvious advantages. It means that control radiates properly from the centre of activities, thus obtaining uniformity instead of a number of units adopting various methods to arrive at required results, which when obtained, are seldom comparative. It is also claimed that centralized methods reduce office expenses by the elimination of unnecessary labor and superfluous office equipment, whilst the quantity of work permits the Head Office executive to employ specialists in the various departments which have to be maintained, thus securing greater efficiency all round.

The principal defect in the method is that a lack of knowledge of the methods in force at Head Office prevent officials at Branches rendering statistics and reports in such a manner that they can be used without a loss of time and energy. In order to obviate this defect, it is proposed to outline the system in force at our Head Office by a series of articles on our accounting methods. These articles will be made as brief as possible and will cover the following:

Costing of Sales and Inventories.

Explanation of our Charts and Accounts.

Branch Accounting Reports and how dealt with at Head Office.

Prepaid and Reserve Accounts how determined and used.

Any other subject which is of general accounting interest.

It is particularly requested that readers bear in mind that these short articles represent an attempt to portray *our* system as it is carried on and do not pretend to be an outline of textbook accounting practice, so that we shall gladly welcome any intelligent criticism or suggestion for improvement.

Cost of Sales and Inventories

The method of arriving at the cost of goods sold has been given first in dealing with our accounting methods, because in all business, small or large, the amount of gross profit on sales is of the first importance. In our business, accurate knowledge of what goods sold have actually cost us is vital, and moreover, we cannot afford to wait till inventories are taken to determine this cost; we must know from month to month. With the hundred of different lines we are handling,

the obtaining of cost figures is an expensive proposition, and a method of grouping costs was at one time tried, but with constantly changing costs and prices it gave such extraordinary results it had to be abandoned. The method we are now using consists first, in a factory cost system which tells the value of material, labor and overhead expenses expended in each line of shoes we make. This is then brought down to a unit cost, so that at the end of every month each plant in operation is able to tell us the number of pairs of shoes produced in each line, and their cost per pair. The system in force is such that we get the actual cost, and our factories, therefore, are not permitted to show either profit or loss on their transactions.

This monthly production is then billed to Head Office in total, and a list of the shoes made, by sample numbers, pairs and cost making up this total, is attached.

Head Office then credits the factory with this total and debits an account, called "Head Office Production."

These shoes are next shipped to the Branches, who are debited, and "Production Account" credited with the amount of the various shipments.

The work of obtaining the Cost of Sales starts at this point. As the sheets showing the production are received, the quantities under each sample number are transferred to a unit cost book and the value shown. This book is of the loose leafed type, and one sheet is retained for each sample number. As a matter of fact, there are ten books, one book for each group of sample numbers.

The end columns of this sheet are ruled to take care of number of pairs produced, total, unit cost, and extension. Thus the first entry would be, e.g.:

Produced	Total
Line 1016—100 prs. 100 @ \$5.401 =	\$540.10

To the left of the column for quantity are columns for each of our Branches, and as goods are shipped, the quantities shipped are charged in these columns under the heading of the Branch to which forwarded and credited in the production column.

Dealing With Branches

We will next assume that before any of these shoes, Sample 1016, are sold, another month's production comes along, say, 100 @ \$6.00 = \$600.00. We then have 200 shoes produced, costing \$1,140.10, or \$5.7005 each. Note cost has advanced .2995 each.

The next month, 100 pairs are sold by Branches. The cost of these sales is 100 at 5.7005, not \$6.00, or \$5.401 because we have produced, and have on hand 200 pairs, which cost us in all \$1,140.10, or \$5.7005 each.

These sales are then credited under the Total Column and the Branch Column, and extended in the Amount Column in red ink. This page of No. 1016 Sample Number looks as below:

	Branches				Produc- tion	Total	Cost	Amount
Nov. Production .....	..	..	..	..	100	100	\$5.401	\$540.10
Shipments	25	..	25	..	—50	...	.....	.....
Dec. Production .....	..	..	..	..	100	100	6.00	600.00
Shipments .....	..	50	..	50	—100	...	.....	.....
On Hand	25	50	25	50	50	200	5.7005	1,140.10
Dec. Sales .....	..	—50	..	—50	...—100	...	5.7005	570.05
On Hand Jan. 1...	25	..	25	..	50	100	5.7005	570.05

It is plain that we have on hand 100 pairs at \$5,7005 = \$570.05, and that this stock is divided amongst two Branches and Head Office, which latter has 50 pairs on hand unshipped.

The next month the factories produce 500 pairs at \$5.00 = \$2,500.00. This 500 pairs amounting to \$2,500.00 is added to the 100 pairs amounting to \$570.05, giving us 600 pairs costing \$3,070.05, or a unit cost of \$5.11675 each.

Any shoes sold this month would, therefore, be costed at 5.11675, and quantities on hand reduced accordingly. Branches might now ask how shoes shipped to them are costed. The answer is that as shoes are shipped they are costed at the price at which such shoes were produced and not at the unit cost. This course is obviously necessary, because if priced at unit cost on an advancing market, Branches would be getting the benefit of the first initial low price, and again getting the benefit of the initial low price in the subsequent average price, and the converse would be the case on a falling market.

How to Cost Sales

Having dealt with the principle of cost finding we will now turn to the actual methods in force in costing sales.

As invoices and recaps. of same are received from Branches, they are entered into Sales Analysis Books, one book being kept for each Branch. There are columns for Date, Invoice, Number, Amount, and columns for each of the Sales Classifications in our Chart of Accounts. There are also columns for such items as Postage, Freight, Cases, Discount, etc.

Each invoice is then analyzed separately as to amounts, under the headings of the goods sold, so much Leather-own-make, so much Felt-Resale, so much Findings, etc.

The total of all the analysis columns, less discount column, of course balances the total of the daily sales recap., proving the actual clerical work has been done correctly.

The actual analysis work, i.e., deciding the amount of each classification, is done by consulting a chart which clearly indicates the classification governing the sample numbers. Certain numbers have been given for "Own Make," another series for "Resale," and so forth.

It is at this point that Branch invoices frequently lead us astray, as a wrong sample number in most cases means a sale classified

wrongly, which in turn means a credit to sales without corresponding debit to the Cost of these Sales.

The entire results of all our work in determining the Cost of Sales is negated unless the greatest care is taken to insure accuracy in the quoting of Sample Numbers, and we cannot impress this fact too forcibly.

Trouble With the Branches

Another frequent source of inaccuracy is the failure of Branches, when making local purchases and paying for same, to charge the right Merchandise Account. The only local purchases a Branch is justified in making without first obtaining an order from the Head Office and having correct sample numbers given, are miscellaneous purchases for customer's convenience. These purchases should be charged to the Account "Resale Miscellaneous," and when sold, the items must be marked as "Resale Miscellaneous," and the cost shown on the Head Office copy of invoice.

Let us take an instance. A customer requires a pair of shoes of our own make, of a size which you do not happen to have in stock. In order to give this customer service, you send out and buy the shoes from a local merchant. Now here is the point we wish to emphasize. These shoes obtained in this way are not a sale of our own make merchandise, but a sale of Resale Miscellaneous Merchandise, and you must be careful to charge this account when making payment, and also to mark your sales invoice Resale Miscellaneous, and to show the cost on Home Office copy. Naturally, to put our own sample number on the invoice would be most misleading and no sample number should be shown in such cases.

Similarly, if you buy a pair of felt shoes you must not charge Resale Felt Merchandise Account, but Resale Miscellaneous Account, and when sold you must not sell these shoes as Felts, but as Resale Miscellaneous, showing cost on Home Office copy invoice. A Branch some time ago bought a Hot Water Bottle for a customer. When paying for this the Branch charged Rubber Merchandise Account, instead of Resale Miscellaneous, and showed the sale amongst the Rubber Footwear Sales, which of course, was entirely wrong.

Pointers for Branch Accountants

We have gone to some length to explain this matter thoroughly because a proper understanding of the relationship between Merchandise Accounts, Sales and Cost of Sales is of paramount importance. The analysis of sales having been made and recapped, we next proceed to analyze the sample number on invoices by quantities, and we have sheets designed to assist us in getting this information. Having found the number of pairs of each sample number sold by each branch, we prepare sheets showing these details, using separate sheets per branch for each Sales Classification, and these sheets are then costed and extended and entered into the Unit Cost Books as explained previously.

The totals of these sheets give us the Cost of our Sales and are used to make the actual entries into our general ledger.

We have omitted to say that Branch Transfer Invoices are also costed from unit cost books and entered in these books.

As Transfer Invoices simply represent the transfer of stock from one Branch to another, the unit cost is not affected.

The main points for Branch Accountants to remember are:

1st. Accuracy in quoting Sample Numbers.

2nd. Never pass an item on a sales invoice without a sample unless it is a Resale Miscellaneous item.

3rd. To give the Cost of Resale Miscellaneous Items on Head Office copy of invoices.

4th. To be careful not to accept any invoices for Resale Merchandise without obtaining proper sample number from Head Office.

5th. When paying for local miscellaneous purchases to charge the right Merchandise Account, viz., Resale Miscellaneous; also, when sending invoices to Head Office for payment, to state under what classification sold, giving sales invoice number.

CHART OF ACCOUNTS

Practically speaking, bookkeeping is the science of recording business transactions in such a way that the exact facts are exhibited, properly classified in convenient form for determining the result of the transactions. It therefore follows that the prime factor in any system of accounting is the proper classification of the accounts which will be required to record all possible transactions in the operations of the business that is being conducted.

Our chart of accounts is the result of this classification, and is designed to take care of all our operations from the formation of the Company, through the manufacturing, operating and selling stages, to the final closing of the books.

The accounts of all manufacturing and selling businesses can be roughly grouped into four general headings, viz.: Assets. 2. Liabilities. 3. Income. 4. Expenses.

These headings are then sub-divided according to the exigencies of the business. Thus our chart comprises ten main groups, and these groups are referred to by the numbers 1 to 10. Any accounts, then, which can be classified under one of these ten headings has for its first distinguishing mark the number of the group to which it belongs. The skeleton of Chart is as follows: 1 to 5 assets; 6 and 7 liabilities; 8 and 9 income; 10 operating and clearing accounts.

We have now a grouping which embraces the entire field of our activities, but it is altogether too congested to give us the details we must have, so we make an analysis of each group, and in order to

prevent any possible confusion we retain the distinguishing numeral as the index figure of the sub-group of accounts.

Thus, No. 1 group represents our Assets, called Cash and Debts Receivable, therefore, 1-11 represents our Asset Cash;

1-12 represents our Asset Accounts Receivable; and so forth.

However, it is soon evident that Account 1-11 Cash covers too large a field for our purpose, as we require to know how much Petty Cash we have, how much Branch Cash, etc. Each of these items demands an account to itself, so we create sub-accounts controlled by Account 1-11, and call these Accounts:

1-11-Cash in Bank. 1-11-2 Petty Cash. 1-11-3 Branch Office Cash. 1-11-4 Factory Cash.

Take group 8 as a further illustration: 8 represents Income and Expense on Sales, consequently all sub-accounts of this group will be represented by the 80's. 8 being the index figure, it follows that the first sub-group will be known as 8-81. Group 8-81 also requires sub-dividing, but as we have already clearly indicated the group to which it belongs we can utilize the early numerals again for the detail accounts, so we get: 8-81-1, which is Sales of Leather Footwear, Own make; 8-81-2, which is Sales of Winter Footwear Own Make; 8-81-3, which is Sales of Canvas Footwear, Own Make; etc., etc.

This system of classification is a decimal system. We have ten main groups each group capable of being divided into ten major groups only, but each of these major groups can be divided into as many minor accounts as are necessary without in any way interfering with the method of identification.

There is one other feature of this scheme of Accounts which requires a little explanation, and that is the system of applying "0" numbers to certain groups. The idea is that whilst certain accounts are assets or liability accounts and should, strictly speaking, be classified accordingly in the corresponding group number, yet convenience demands that they be handled differently. In order to obviate this difficulty we prefix the numeral "0" to the third group of numbers in any classification, thus:

(a) 1-12 = Asset Accounts Receivable (Debit Account),

1-12-02 = Reserve against Accs. Receivable for Bad debts (Credit Acc.),

(b) 8-81 = Sales (Credit Account),

8-81-01 = Trade Discount on Sales (Debit Account),

from which it is apparent that whenever the "0" is shown in front of the sectional number, this account represents an account of the opposite nature to the one indicated by the grouping number.

Space prevents the complete Chart of Accounts being given, and as each Division Office has a copy, repetition is unnecessary, but I

THE CANADIAN CHARTERED ACCOUNTANT

give below a table, which, I trust, explains the principle underlying the numbering system:

Control No.	Description	Group No.	Description	Detail No.	Description	Full A'C No.
1	Assets	11	Cash	.1	Cash in Bank.	1-11-1
	Cash and Debts			.2	Petty Cash ...	1-11-2
	Receivable			.3	Branch Office	
					Cash	1-11-3
				.4	Factory Cash..	1-11-4
1	do.	12	Accounts Receivable			1-12
			Customers			
1	do.	12A	Accounts Receivable			1-12A
			Suspense			
				.01	Reserve Discounts or Bonus	1-12-01
				.02	Reserve for Bad Debts	1-12-02
				.03	Reserve for Defective and Guarantee	1-12-03
1	do.	13 to 19 As per Chart			As per Chart	
2	Assets, Mdse.	20 to 29	do.		do.	
	Materials and Goods in Process					
3	Assets, Prepaid, Deferred and Miscellaneous	31 to 39	do.		do.	
4	Assets, Properties and Plants	41 to 49	do.		do.	
5	Assets, Securities, Goodwill, Trade Marks and Patents	51 to 59	do.		do.	
6	Liabilities Current	61 to 69	do.		do.	
7	Liabilities Fixed, Capital	71 to 79	do.		do.	
8	Stock and Surplus Income and Expense on Sales	81 to 89	do.		do.	
9	Other Income and Expense	91 to 99	do.		do.	
10	Operating and Clearing Account	01 to 09	do.		For use of Factory only.	

From the above, it is readily seen that we have both the Assets and Liabilities grouped in such a way that our quick and current assets are readily distinguished from our fixed assets, and our cur-

rent liabilities from our fixed liabilities, yet the total of each class and details making up these totals are instantly available. Group 8 is designed to give us quickly both our gross and our net profit or loss on sales, whilst group 9 accounts for all other income and expense items.

Group 10 covers items of Factory Expenses in making our products, but as these expenses are included in the cost of the shoes sold, they have no bearing on the profit and loss as shown by Groups 8 and 9, so, for the purpose of this article, Group 10 may be ignored.

The writer trusts that a short study of this outline of our scheme will clarify any little confusion which may have existed in the minds of some of our officials at Division Offices and assist them to locate accounts required with the least possible waste of time and energy, as when once the underlying principle is appreciated, the number of the account is automatically indicated.

DIVISION OFFICE REPORTS AND METHODS OF HANDLING AT HEAD OFFICE

Unless an Office Manager has a more or less comprehensive mental picture of the requirements of a centralized accounting system such as the one we use, he must be caused some difficulty in realizing the uses of the reports he submits, and until he does visualize the system it will be impossible for him to compile these various reports as intelligently as both he and the Head Office accountants would like. Therefore, before dealing with the reports themselves, it will probably be advisable to give a rough outline of the accounting scheme.

In the last issue I dealt with the Chart of Accounts, so that knowing the accounts required by our business, we can now proceed to open our General Ledger.

The Head Office General Ledger is split up into the following units : 1. Head Office ; 2. Plant No. 2. Leather Shoe Factory, Mount Royal Avenue ; 3. Plant No. 3 Leather Shoe Factory, St. Hyacinthe Que. ; 4. Plant No. 4. Rubber and Tennis Factory (Mount Royal Rubber) ; 5. Divisions, viz. : a. Maritime ; b. Quebec ; c. Ontario ; d. Manitoba ; e. Saskatchewan ; f. Alberta ; g. Pacific.

Each of these units contains a full set of accounts and each is complete in itself and self-balancing, yet each one is an integral part of the general ledger. In short, our business is split into five departments, with one of these departments (No. 5) analysed into seven sections, and it is with the No. 5 section (Divisions) I propose to deal in this article.

Each Division has a ledger to itself and each ledger contains a full set of accounts as per our Account Chart. Where a Division has Branches subordinate to the Division Office, separate accounts are kept in the Division ledger for various items of the Branch activities

over which we wish to exercise supervision, such as Inventory and Sales Accounts, for instance ; otherwise Branch accounts are included in Division Accounts.

Division Office Transaction

The ledgers having been opened as per the foregoing, we are now in a position to record the Division Office transactions. The accounting transactions peculiar to a Division Office are : 1. Cash Receipts ; 2. Cash Disbursements ; 3. Sales and Credit Recaps ; 4. Transactions involving Journal Vouchers ; 5. Recaps. of Debit and Credit Memos ; 6. Balance Proof Reports ; 7. Transfer Invoices.

1. Cash Receipts.—For these, all Divisions use our standard type of Cash Book, which was designed to take care of the requirements of Division Office business. Each month, after this book has been properly balanced off and summarized, a report is made up at the Division Office to be sent to Head Office. This report form is printed with the account numbers which will be required so as to minimize the volume of work at the Divisions. The Cash Book summary is then copied on to this form, from which Head Office bookkeepers obtain the Division Office's record of the Receipts Cash Book transactions for the month. The Head Office bookkeepers then check this form for clerical errors and incorrect account numbers, after which it becomes the medium for posting to the General Ledger.

2. Cash Disbursements.—Exactly the same procedure as Cash Receipts, except that report is rendered weekly instead of monthly, with a final report for the odd days between the last weekly report and the end of the month.

3. Sales and Credit Recaps.—The summary of these recaps. is journalized by Divisions, so that this information is included in item No. 4.

4. Transactions involving Journal Vouchers.—When a Division Office makes a Journal Voucher it is recorded in a tabular journal. This journal is balanced and recapped, monthly. The summary is then transferred to the form, Recapitulation of Journal Entries, which is sent to Head Office attached to copies of the Journal Vouchers in question. After checking, this form becomes the medium of posting to Head Office General Ledgers.

Transactions between H. O. and Divisions

5. Recap. of Debit and Credit Memos.—Standard forms have been adopted for this recap., which is prepared by the Division Office and forwarded to Head Office, where, after being checked, it forms a posting medium to the General Ledger.

6. Balance Proof Report.—Division Offices keep control accounts for Accounts Receivable, Accounts Receivable Suspense. Bills Receivable, Travellers Advance Expenses. The control accounts of Receipts Cash, Disbursement Cash and Petty Cash are of course, the Cash Books themselves. The monthly balances of all these accounts

are recorded on the Balance Proof Report which are used at Head Office to verify the Division Office balances with the balances in the General Ledger.

7. Transfer Invoices.—Transfer Invoices record transfers of stock to other divisions and factories, and, when costed and recapped., form a posting medium to Division Ledgers.

At present there has been nothing but straight-forward entries as far as the Division Office records are concerned, but as these records only form a part of certain transactions it is obvious we must prepare for occasional peculiarities when posting to General Ledgers. For instance, a Division Office has transferred \$50,000 cash to Head Office, and this transaction is duly recorded on the Recap. of Cash Receipts. When Head Office received this cash, the Head Office Cash Book would show a debit to Head Office Bank and a credit to Division Office, so that the bookkeeper at Head Office must delete the amount of his credits to Division Office in the Head Office Cash Book, from the Division report, otherwise he would credit the Division twice. He must also delete the Division Office debit to Head Office on the Division report, because Head Office books already have been charged from the Head Office Cash Book. The converse is the case with regard to Head Office Disbursement cheques to Divisions.

Transactions between Divisions

The Head Office bookkeepers must also be on the look-out for items on the Division Office report debited or credited to accounts of other Divisions, so as to post correctly. If one Division receives cash for the account of another Division's customer, the recap. of cash receipts of the Division receiving the cash would show a credit to the Accounts Receivable of the other Division, consequently the Head Office bookkeeper would have to get the other Division ledger before he could post. This is what is known as a One-Sided Entry, and the division making the original entry should immediately write a One-Sided Entry Advice note and forward it to the Division Office affected. By this means we entirely eliminate accounts of one Division against another and the forwarding of inter-Division settlements, thus avoiding a source of endless disputes and saving much time and stationery.

After the posting of the Division Office reports is completed, the Transfer Invoices are costed and recapped. From this recap. the various Division and Factory inventory accounts are debited and credited. Factory shipments are costed and debited to Division inventory accounts. Division sales and credits are costed and Division inventory accounts credited and Cost of Sales account debited, as per my previous article on costing of sales.

With exception of monthly Head Office proportions for Reserves and Prepayments, etc., which will be fully dealt with in a subsequent article, the Division ledger is now ready for balancing.

Making the Ledgers Self-balancing

It must be remembered that whilst we have posted a debit for every credit, and vice versa, some of the entries have been made in different ledgers, consequently, whilst the totals of all the ledgers will balance, the totals on any one of them cannot balance unless we make some additional entries.

In order to take care of this condition we open accounts, which we call Inter-Company Accounts Receivable, in the Division Office and in the Head Office ledgers. These are simply accounts covering the excess of debits over credits to enable each Division ledger to be self-balancing. It will be realized that all Division Offices have a large debit balance in the Division ledgers, the corresponding liability being represented in Head Office books in the form of Share Capital, Bank Loan, etc., from which it is apparent that a Divisional Inter-Company account represents the Company's investment in the Division.

The difference, then, of a Division Office debits over credits constitutes a Debit to Head Office Inter-Company Account and a Credit to Division Office Inter-Company Account, and the total debits of this Account for all Divisions must equal the total credits of Head Office Inter-Company Account, the one account exactly off-setting the other.

A trial balance of each Division is then taken off, from which is prepared the various Assets, Liability and Earnings statements which, when combined with statements from 1, 2, 3 and 4 ledgers, represents the Company's position at the close of each month's business.

TWO WAYS OF LOSING MONEY

The importance of the asset Accounts Receivable to any firm doing an extensive credit business cannot be emphasized too emphatically. How often is it found that when a firm gets into difficulties, only 40 or 50 per cent. can be realized on its book debts? Also why is it in spite of all attempts to minimize this shrinkage by the use of every collection method known better results are not obtained? The reasons are two, and I am stating the reasons in their proper sequence.

1st.—Bad Bookkeeping.

2nd.—Bad judgment in crediting.

The very best of credit men are apt to go astray in giving credit. After all the known and exact factors of a merchant's standing are given due consideration, there still remain more or less inexact factors which have a decided influence on the amount of credit to be allowed. A certain amount of shrinkage from bad debts is, therefore, unavoidable, and in all companies, with any pretence to a system, this shrinkage is reserved. so for our present purpose we will not discuss the second reason but assume that the right per cent. has been set up as a reserve against this type of loss.

We are then left with but one reason, viz., Bad Bookkeeping, to account for the shrinkage of accounts receivable. Attempts at collection bring to light all kinds of deficiencies, amongst which are the following :

- 1.—Returned goods not credited.
- 2.—Receipt issued but account not credited.
- 3.—Terms not shown in ledger and discount not credited.
- 4.—Failure to prove which items of an account are unsettled.
- 5.—Failure to prove delivery.
- 6.—Goods shipped and invoiced to wrong name such as to John Smith, when Mrs. John Smith is the owner of the business.
- 7.—Invoices debited to wrong account entirely.

Bad Bookkeeping Loses Money

All these short-comings are directly traceable to the bookkeeping department, so let us overhaul our own bookkeeping department, so that we can always confidently assert that our book debts are worth 100 cents on the dollar at any time.

The first thing to do is to see that your customer's ledger accounts are properly opened :

- (a) That the name of the firm is exactly shown, and if a limited company, that this fact is stated, also, if run by a woman that the account is so distinguished.
- (b) That if the account is given a regular discount, that this discount is properly marked at the head of the account.
- (c) That if account wishes drafts drawn monthly, less cash discount, that this information is inserted prominently at the head of the page.
- (d) That if statements are to be rendered to any other address than that of the company's business address, that this address be noted at the head of the page.
- (e) That if invoices and statements are required in duplicate or triplicate, the ledger properly records this fact.
- (f) That the customer's bank be shown when known.
- (g) That the mercantile ratings are inserted in the place provided.
- (h) That the credit limit is inserted in such a way that bookkeepers can draw attention when this limit is exceeded.
- (i) That if the account does not accept drafts, it is marked "open."

Dealing with Drafts

All these conditions having been complied with, the bookkeeper is now in a position to post. When posting, he must see that invoice is properly drawn up, name and address correct, terms stated, total plain, and a good bookkeeper will do this automatically because these features are vital to the success of his work. He will then post filling

in date and observing that year is shown over date column, folio number, description of sale, dating, special terms, if any, and amount. Credit invoices will be posted carrying similar information. When posting cash book items, he should state date, cash, C. B. folio, and show discount amounts separately.

If entries coming through from journal, he should as far as possible give information such as interest, policy allowance, freight, etc., and the same thing applies when posting debit and credit memos.

Credit from Paid Bills Journal should be posted, showing date, Bills Receivable, B. R. Folio, amount and discount items should be shown separately.

It is our practice to draw on accounts from invoice binders and our ledger sheets carry columns for draft information. The invoice copy will show whether draft drawn, and, if so, the bookkeeper when posting will fill in, in the draft memo. credit column, the amount of the draft and when due. He will also identify the amount or amounts, in the account with the draft which covers it or them, by the use of a symbol.

Of course, in an active account, there are always a number of small items which cannot be drawn for from invoices, and, at the end of the month, the symbol system of identification distinguishes these items and a statement can at once be made out for them and draft or drafts drawn as the terms of the items in question demand. When the bookkeeper draws such a draft, he immediately enters it in the credit column of the draft memo. and identifies the items so drawn for by a symbol.

When crediting a paid bill to the account, the bookkeeper ascertains the symbol of the draft from the draft memo. column, marks the credit item with this symbol and strikes out the draft, marking "paid" against it.

Rules Must be Rigidly Adhered to

Assuming that during the month, a draft is returned part paid, a statement of the renewal should be immediately prepared. In the meanwhile, the bookkeeper will have posted the cash credit from the Cash Book, but will be unable to identify this credit as a payment of any particular item. The statement of the renewal will give him this information, and from it he will give the cash credit item a new symbol, and strike out the draft shown in the memo. column, marking "returned" against it. He will also give the new symbol to the renewal draft, and post it in the draft memo. credit column. Any interest charged will also be given the new symbol number.

The interest item, if not already posted when bookkeeper is marking up the renewal statement, should be posted in the ledger in pencil and inked in when the actual entry is made.

If this system is followed out, every item in account will be systematically identified, and in drawing accounts the total of the outstanding drafts will exactly equal the balance of the account.

The successful working of this system depends on certain rules of procedure being rigidly adhered to, viz., drafts must not be marked in the Ledger except from invoice binder, or from statement, or from Paid Bills Diary. Drafts which are returned before due date and sent out again require no statement, and therefore do not need to be crossed out of the draft memo. column and re-entered. Drafts which have been returned, and are being held by bookkeepers pending receipt of letter or cheque from customer, must not be marked out of the Ledgers. From the bookkeeper's point of view they are "outstanding" as far as his Ledger is concerned until paid or renewed.

An account cannot be part drawn for and part open. It must be all covered by draft or left open.

It will be noted that the debit column of the draft memo. has not been mentioned, and the reason for this is it has been found more convenient to strike out a paid or returned draft with the word "paid" or "returned" against it than to debit the amount in the debit column.

Keep Ledgers Up to Date

Another essential feature is the prompt posting of the ledgers from all the sources of entry. Many offices leave the posting in the early part of the month till ledgers have been balanced for the previous month. It will be found of great advantage to leave an open line at the end of the month, and keep the posting up-to-date. Ledgers should never be more than two days behind at any period of the month, and posting should be done daily. Nothing can be more important to a bookkeeper than this, yet it is nothing uncommon to find ledgers two or three weeks behind.

Open accounts are more easily handled, but every payment received must be identified with the items which it pays, so that at any moment a clear statement of the unpaid items can be prepared.

The next important step is the rendering of monthly statements. Every account with an amount owing should receive a statement each month.

If the account is fully covered by drafts, the statement should read: Amount outstanding, \$1,833.36, covered by drafts maturing as follows

Draft due Jan. 30.....	\$100.00
Feb. 5.....	800.00
" 10.....	100.00
" 28.....	833.36

This statement is considered unnecessary by a number of office managers, but any manager who is keen on making good collections systematically will appreciate the fact that it not only brings to the customer's attention the amount owing, but it points out when this amount is becoming due and gives him a chance to provide for the paper before the actual date of maturity. The statement serves a further useful purpose by bringing to light drafts which have matur-

ed but which have neither been returned nor paid. These drafts in the ordinary course of events would have attention drawn to them as outstanding items past due in the Bills Receivable diary, but frequently a useful purpose is served in having them brought to light from another source. Such items should be "fated" at the bank periodically and carefully followed up.

Ledgers should be added and balances of all accounts duly set up monthly. With the system outlined the balance of the account and the balance of the outstanding drafts must always be identical, and the making of statements frequently brings to light errors in posting which would otherwise necessitate much laborious checking.

Handling Assigned Accounts

A special ledger should be kept for accounts in suspense, and this Suspense Ledger should include all accounts which have ceased to be active from any cause whatever, and which show balances owing.

Immediately an account is transferred the new Suspense Ledger account should be properly opened up.

Each account should have a sheet for the account itself and a sheet for remarks. The remarks should be a history of the account from the date of transfer and should include all possible data obtainable. Take the case of an assignment, the following information should be instantly obtainable :

Date of Assignment ;

Name of Assignee ;

Amount of claim, showing amount "Preferred," if any ;

Date filed.

Afterwards incidents as they occur should be logged, such as Percentage of Dividends expected from statement submitted at meeting of creditors. Where there is delay in the winding up of an estate, the reasons should be given with particulars of the assets which cannot be disposed of. Where involved transactions take place in connection with the winding up, the essential facts should be written down, with reference made to the file where possibly required documents can be found. Such transactions frequently take place where a "Bulk Sale" or Fire loss, or Extension Agreement, turns into an Assignment.

In short, this ledger should contain all the vital statistics of the accounts it embraces, so that any experienced credit man would have no difficulty in ascertaining all the particulars he requires if called upon suddenly to take charge of these accounts and follow them up.

(From Canadian Finance.)

PRINCIPLES OF INTERPRETATION OF
ACCOUNTING DATABY FREDERICK A. THULIN

THE writer, in his practice, upon the completion of an annual audit, customarily offers the suggestion to his client, that he will be glad to appear before the board of directors or the annual meeting of the stockholders and orally amplify and analyze the audit report. The suggestion is usually readily accepted by the client. Furthermore the writer is of the opinion that if the public accountant would more generally follow a procedure of this nature, the public accounting profession would be giving a distinction to accounting service that the cold report can never give.

Under the English companies act, it is compulsory to submit the annual audit report at the annual meeting of the stockholders, but the suggestion herein set forth is carrying the English legislative requirement a step further.

Inasmuch as the analysis of figures should be imaginative or interpretive, at least of the past and present and, in a general way, of the future ; and inasmuch as accountancy is scientifically classified as a branch of economics, the public accountant should be in an excellent position to present a many-sided analysis of a business. The writer proposes therefore to outline a plan of analysis, embodying principles of which the public accountant has knowledge but frequently neglects to apply.

The presentation of accounting and related data can be classified as follows :

- I. The analysis of the balance-sheet, with a view of determining the present financial condition of the client.
- II. The analysis of the profit-and-loss statement with a view of determining the condition of the operations.
- III. Forecasting on the basis of business statistics and general economic principles.
- IV. General comments.

Analysis of the Balance-sheet

The writer in this discussion assumes the balance-sheet to be properly set up, to wit : reserves of all kinds are adequate, the correct nomenclature of accounts is used, etc.—in fact, that the general principles set out particularly in the recommendations of the American Institute of Accountants to the federal reserve board have been followed.

Under American banking practice, a rule of thumb has developed to determine present, sound, financial condition—as regards working

capital, a rule which over a long period of years of banking practice has justified itself and proved itself sound.

The before-mentioned bankers' test and one that can be readily adopted by the public accountant is briefly this :

"A business presumptively is in a good financial condition, to wit : has sufficient working capital, if its current assets in relation to its current liabilities are approximately 200 per cent., or greater."

But to determine financial condition, the public accountant must analyze the balance-sheet further. There may be certain factors of omission and inclusion that should be noted, generally of the following nature, before any definitive opinion can be rendered :

The accounts receivable personal, particularly if of any moment and if the reasonable expectation for the liquidation of such accounts is through the medium of a dividend declaration, or if the liquidation will be haphazard, should not be included in current assets.

Investments, although having a restricted market value, if sound can legitimately appear in the classification of current, i.e., convertible assets of a going business. In America some of our corporations have adopted in a minor way the practice of many of the French establishments, the building up of an investment account sufficiently large to guarantee earnings on the stock of the company.

Ordinarily, fixed assets such as land, buildings, machinery, etc., are excluded from the calculation determining financial condition, the reason being that the liquidation of such assets is a business liquidation convertibility and not a convertibility to cash of the assets of a going business. If, however, a fixed asset has a ready market and its convertibility will not be a violation of the rule before mentioned to wit : a business liquidation convertibility, such an asset can be included in the computation of financial worth. An asset of this character would necessarily be an excess fixed asset.

The writer has analyzed many businesses in which the fixed assets have a substantial value, but such assets without a financing program of convertibility such as a bond or note issue, did not place the business in the position where the accountant was able to state to the board of directors or stockholders :

"Your company does not need further working capital with the present state of its liabilities."

The inventory—purposely discussed last—is logically a current asset. The transition from inventory to accounts receivable to cash in theory is accomplished in the period of time pertinent to the business under consideration.

Inasmuch, however, as an inventory may be somewhat frozen, i.e., not make the transition according to schedule, the accountant should note that fact before determining what weight should be given to the slow turnover.

The turnover that should roughly obtain for a particular business can usually be obtained by a study of the preceding years of the business, from trade bodies or associations of commerce or by a special report from some trustworthy business information service, that has gathered statistics on the particular line of business and can be qualified by the accountant to the individual case under consideration.

An inventory therefore that is not moving normally, in the same manner as accounts receivable that are not paid normally, is a factor that, if substantial enough, will necessitate a reduction of the inventory asset or the use of a larger ratio in determining financial position.

The analysis to which the current liabilities of a business should be subjected can be summed up thus :

Are there any liabilities of the business over which the proprietorship of the business has control ? If so, the liabilities are ordinarily functioning as capital liabilities, and, in commenting on such liabilities, the public accountant should make recommendations for a conversion to the capital or fixed liability classification or should otherwise take notice thereof in his comments.

Accounts or notes payable, over which a business has control, to wit : can determine the maturity thereof, are ordinarily met with in closed corporations, where in the expansion of the business capital was needed, or where at the inception of the business, insufficient capital was contributed, and to meet further capital requirements, the stockholders or directors advanced the requisite funds. Advances of the foregoing nature are not expected to be liquidated in the same manner as the ordinary trade or bank debt and the recommendation before-mentioned is usually appropriate.

The fixed liability, the funded debt, ordinarily is not taken into consideration in analyzing financial worth. However, all or a portion of the fixed liability may mature within a period of time after the date of the balance-sheet whereby the original character of a fixed liability is changed to that of a current liability. If the maturing liability is of sufficient proportion to warrant the inference that a refunding and not a liquidation is contemplated, there will be no need for the public accountant to analyze financial worth by including such liability in the current liabilities. The public accountant, however, should comment on the preparation made for refunding.

The bankers' ratio to demonstrate current financial position is predicated on the theory that the translation of inventory and attendant expenses of business to accounts receivable and the payment thereof is not contemporaneous with the maturity dates of the obligations of the business, the latter preceding the former in point of time.

Therefore in many businesses, particularly the instalment business and foreign trade, the difference in time between payment of receivables and maturity of obligations may be so pronounced that the

ratio ordinarily indicative of sound financial position may not actually demonstrate sufficiency of cash working capital. A larger ratio may be necessary. The remedy in a situation of the foregoing nature is to convert such assets by discounting them or to create a fixed liability using such assets as collateral security.

As the writer has indicated, the bankers' method is more or less arbitrary but has been found to work out in practice. The scientific method of computation, outlined by the writer in a previous number of *THE JOURNAL OF ACCOUNTANCY*, is too cumbersome a method for use in every-day business affairs where quick action is desired.

Analysis of the Profit-and-loss Statement

The requisite bankers' relationship of current assets to current liabilities *prima facie* indicates that there is sufficient working capital in the business to liquidate current maturing obligations in due form and as a corollary thereto the business is not drawing on profits unduly to furnish working capital.

An analysis of the profit-and-loss statements of the business, however, may show, that while the business is in a position to liquidate its current liabilities in due form, nevertheless one or more of the following situations may be present :

1. A drain on such ability by a loss from operations ; or
2. The business may not be earning enough commensurate with the entrepreneur risk of its type of business ; or
3. The business may not be earning sufficiently to liquidate its fixed liability at maturity, after allowing a reasonable porportion of such fixed liability to be refundable, thus indicating that a certain portion of the fixed liability of the business is functioning as a pure capital account.

1 and 2. The earnings a business should make on its capital commensurate with the entrepreneur risk entailed are variable according to the nature of the business under consideration. It is perfectly obvious that a rate for one business may be ample, yet entirely inadequate for other business. Eight per cent. may be a sufficient return for a bank but certainly would not be sufficient for a gold-mining or an oil company. The market interest rate, locality, market competitive factors and nature of product sold are the chief factors that the accountant should take into consideration in determining the earning rate logically applicable. If a business is not earning sufficient to compensate capital invested, the accountant should seek to ascertain the reason therefor.

3. It is a fundamental proposition of accounting economics that the liquidation of a fixed liability shall be made from earnings. This proposition is the reverse of the principle governing the liquidation of the current liability.

In advising on the question of financing capital requirements through the medium of long-time borrowing, the accountant should be

in an excellent position to determine the amount, serial payments, refunding probabilities and other incidents attendant on a funded indebtedness.

Frequently, in trust indentures, there is a provision for the maintenance of a certain ratio or excess of current assets to current liabilities to insure to the investor a sufficiency of working capital so that earnings can be used in all or part for the appropriate purpose of liquidating its fixed liability and that earnings shall not be unduly called upon to contribute working capital to the business. The before-mentioned reason is also the underlying reason for the provision, also frequently found in trust indentures, limiting distribution of earnings by way of dividends.

Forecasting by Statistics and General Economic Principles

It is axiomatic that a business may be presently in an excellent financial position, may have an excellent history, but that the future may not be so favorable.

In the writer's opinion, therefore, a business should prepare and have ready for convenient reference, the statistics that indicate from time to time the weak and strong factors of a business. Sales statistics are particularly important and generally speaking the following divisions are sufficient :

- A. Analysis of commodities sold, thus indicating the source of gross revenues from lines sold, and the relative profit from each line.
- B. Analysis of customers into classes, thus indicating the customer market for the business.
- C. Analysis of territories, thus indicating territorial distribution of the sales.

In many instances the gross revenues of a business may show an increase which may be illusory, due to the increase in one type of business offsetting a decrease in another type of business. Statistics will show the strong factors but will also demonstrate the weak factors. Certainly statistics which showed a large government mail order or railroad business in 1918 and 1919 would be a factor in correctly prognosticating the business for 1920 or 1921. Advertising programs and other plans of an administrative nature may be largely determined by the statistical data of the business.

The writer in the preparation of audit reports by his staff insists in most instances on the analysis of the sales account, so that no client will be misled by illusory increases or decreases in gross revenues.

Sales statistics serve another purpose in forecasting by giving data on which to base the successful further continuance of the business. The commodity analysis may show a patented or specialty article the future sales of which may be curtailed by a superseding commodity. The customer analysis may bring to the attention of the

management a customer market that may be weakened or disappear in the future ; and the territorial analysis may do likewise.

As the average business has a fairly accurate classification of expense accounts, the data on expenses is ordinarily not difficult to ascertain. Increases not consistent with the growth of the business are facts which are items of information that the public accountant should be cognizant of and interpret as to their significance.

General

In ordinary periods of business activity, the analysis of a business generally may ignore the personality element and confine itself to the concrete facts as shown by the accounting data. But in unusual circumstances, such as the present period of business depression or any similar period of general depression, when the assets shrink and liabilities remain stationary, the analysis should not fail to weigh the intangible elements that give potentiality to the business. The business character and fitness of the official personnel, the organization developed, the character of the house for business integrity, its history, etc., are factors that will always assume an importance in determining the financial stability of a business. As Andrew Carnegie once stated, in substance :

"My losses I can always recoup, if my personnel and organization are not taken away from me."

(From The Journal of Accountancy).

THE DISTRIBUTION OF RESERVE FUNDS

IN a letter which appeared in our issue of the 10th ultimo a correspondent asked if we could refer him to any articles discussing the question of the distribution of Reserve Funds, mentioning that "the practice is becoming very common with large companies of late." We must confess that we have not noticed any appreciable increase in the frequency of such distributions, but, at a time like the present, the matter would seem to be one of some importance.

Opinion—even qualified opinion—is by no means unanimous upon the subject of what a Reserve Fund is, or ought to be, and this, doubtless to a considerable extent, increases the complexity of the problem; but, for our present purposes, it may, we think, be stated without much fear of contradiction that a Reserve Fund must be represented by a corresponding excess of Assets over Liabilities, and that a Reserve Fund is always set aside with the object of either (a) separating profits that are not legally distributable as dividends from profits that are so divisible ; or (b) setting aside (or reserving) some of the divisible profits, to the end (1) that the financial resources of the company may be strengthened accordingly ; (2) that a sufficient

amount of divisible profits may be retained in hand in good years, to make provision for the payment of the customary dividend even in bad years.

For our present purpose it is quite unnecessary to discuss the kind of Reserve Fund that consists of Capital Profits, i.e. profits that are not legally available for distribution of dividends. It will be sufficient for us to confine ourselves to those profits that are legally divisible, but which, for one reason or another, have been set aside—or reserved—for the time being. Sometimes the primary reason for this policy of reserving profits is to meet a present need for additional working Capital ; sometimes, on the other hand, the object is merely to make provision for something that may happen in the future—for contingencies ranging over various possibilities, from a temporary falling-off in profits that would otherwise make the maintenance of the customary dividend difficult, if not impossible, to a recognition of the fact that the future is always full of uncertainties, and that a time may come in the lifetime of any business when the possession of a certain amount of liquid assets will provide it with an opportunity that may perhaps never recur.

Whatever may have been the motive that lay behind the original formation of a Reserve Fund, directors are quite entitled from time to time to reconsider the matter, and, provided the circumstances justify such a decision, to come to the conclusion that the time has come when no further additions to Reserve Fund are necessary, or (it may be) even desirable ; or, in exceptional cases, that the Reserve Fund is unnecessarily large, and accordingly that the time may come when part of it may with advantage be distributed. Speaking on purely general grounds, however, one would certainly be inclined to say that the conditions obtaining at the present moment are not such as would seem to point to the desirability of distributing existing Reserve Funds ; they would seem rather to be conditions under which companies may well congratulate themselves upon the possession of Reserve Funds, which may now provide them with the opportunity of a lifetime. That, however, is a question which can only be settled definitely by taking each separate case upon its own merits. For obvious reasons, the subject is not one upon which any generalization can be very profitable.

Any distribution that may be made out of Reserve Fund must naturally be a distribution which takes place once and for all. And it is in this respect that it differs fundamentally from the payment of an ordinary dividend. But while the circumspect will not fail to appreciate this difference, it has to be borne in mind that the majority of the investing public are not circumspect in connection with matters of account. In just the same way that the payment of high dividends tends to enhance the market price of the shares of a company, so is the market price of a company's shares liable to be enhanced by the payment of a bonus, even although such bonus may be paid not out of

current profits, but out of a Reserve Fund accumulated in prior years. Yet it must be perfectly obvious to those who really grasp the position that the payment of a bonus out of a Reserve Fund necessarily leaves the company so much the poorer, and necessarily *pro tanto* reduces the value of its shares. Yet, as we have said, so little is this fact generally appreciated, that the payment of a bonus of this description usually tends to increase the price of the shares for the time being—that is to say, until the general body of investors realize that these bonuses are non-recurring. Accordingly, the effect to be expected from the payment of a bonus out of Reserve Fund is, in the first instance, an increase in the market price of the shares, and a demand for those shares under the mistaken impression that the company has recently been more profitable than heretofore; while, in the long run, the tendency is for the price of the shares to become lower than it was before the distribution took place.

If, while it existed, a Reserve Fund was represented by investments outside the business, its subsequent distribution naturally tends to deprive the company of the income that heretofore it enjoyed from these investments, and to that extent its future earning power has been permanently crippled. But the rate of yield of good class investments, until quite recently, has been so poor that this falling-off in the earning capacity of the company has in many cases been almost imperceptible. At the present time, and for some little time to come probably, it will be more noticeable. It is, however, in the case of Reserve Funds that are not represented by outside investments—in the case of Reserve Funds that are said to be “invested in the business”—that the result of a distribution out of the Reserve Fund is more apparent. Working Capital employed in ordinary business enterprise may well be expected to produce anything between 10 per cent. and 15 per cent. per annum, and under present conditions perhaps even more. It is reasonable to suppose that a Reserve Fund would never be employed as Working Capital in a business unless it was really required for that purpose. Accordingly the distribution of such a Reserve Fund will seriously interfere with the future earning power of the company, unless the company happens to have reached such a stage in its career that it no longer requires so large a Working Capital as it used to do—an unlikely, but not impossible, state of affairs. The distribution of a Reserve Fund usually brings about a reduction of the company's future earning capacity at a time when the payment of such bonus has deliberately raised expectations of an increase in earning capacity, with the result that the ultimate and inevitable disappointment is all the more marked. Unless, therefore, the falling-off in profits may reasonably be expected to be of quite a temporary character, the desirability of dividing a Reserve Fund among shareholders appears to be exceedingly questionable.

(From The Accountant).

RAISED CHEQUES AND FORGERIES

THE Bills of Exchange Act says that a forged or unauthorized signature is inoperative and no right to retain the bill or to give a discharge or to enforce payment can be acquired by that signature. But the person whose signature is forged must not be to blame. His own conduct must be such that others have not been misled or lulled into a sense of security. The fact of leaving a space after the word indicating the sum for which the cheque is drawn is not in itself negligence. In an action which went to the Privy Council, a cheque issued by one Bauer, a customer of the Bank of Hamilton, for \$5.00 and certified for that amount, he wrote the word "hundred" after "five." There could be no doubt that the condition of the cheque when certified afforded opportunity for the fraudulent alteration, but this was held not to preclude the bank from denying liability for more than \$5.00 as against the Imperial Bank to whom it had been endorsed. The House of Lords, the highest court in England, has decided that there is no duty incumbent upon the acceptor of a bill of exchange toward the public or subsequent holders of the bill to see that it is in such a form as to prevent the possibility of fraudulent alterations after it has left his hands.

A Customer's Duty to His Bank

There however may be a duty on the part of a customer toward his banker which does not exist on the part of the acceptor of a bill toward its holder, but it has been decided that the mere fact that a cheque is drawn with spaces such that a forger can utilize them for raising is not in itself enough to render the drawer liable. A banker ought not to be exposed to the risks such as that of paying at his peril a cheque signed with a rubber stamp used without authority by a dishonest servant.

Some years ago I successfully defended a bank which was sued by the payee of several cheques which had been stolen from him. This payee who was a lumberjack, kept the cheques in a magazine he was accustomed to read in the bunkhouse. He admitted on cross examination that he believed a member of the crew "who was a suspicious looking character" had stolen them, and that this man might have seen them in a magazine and could easily have got them. The rule is that whenever one of two innocent parties must suffer by the act of a third person he who has enabled such third person to sustain the loss must bear it, that is, by some conduct or default in the very transaction in question and it must be the proximate cause.

But if one sends a draft by mail he is entitled to rely on the honesty of his servants and assume that they will post the letter. So that if the servant who had charge of the mail abstracts the cheque the sender will not have to stand the loss except as against the payee.

In following the usual course and custom of business houses he can not be said to be negligent.

Cheques Stolen from the Mail

A New York merchant remitted to London a draft which was stolen by his own clerk before it reached the post office. The endorsement was forged and the drawee paid it. The merchant was held to be entitled to collect from the bank. It was proved in the same case that there was a custom in New York to send advice by concurrent or later mail of the sending of this draft but evidence of the custom and its non-observance was rejected as not amounting to negligence. Every case must stand on its own merits. The worst of the law is there seems to be no finality—to many “ifs ;” which reminds me of Mr. Train’s recent story—one of the Tutt and Tutt series ; the text for which is a decision of the New York Court of Appeals that “Every dog is entitled to one bite.” If the servant had “bitten” before, the master would be considered negligent in retaining him in a position where he could repeat the offence. A customer of the Bank of Montreal was held to owe a duty to the bank to notify it when he learned of the forgery of previous cheques on his account by the same person.

Prompt action on the discovery of a fraud is the imperative requisite to protection. If one becomes aware that by the unauthorized use of his name, a fraud is being perpetrated on a bank there is a duty cast on him to notify the bank of the fraud, although no previous business relations existed between them and sufficient relation is created by the fact that notice is given by the bank that his name is being used. Such notice to the bank ought to be given by telephone or telegraph.

Silence May Cost Money

Ewing and Company of Toronto were notified by the Dominion Bank that an acceptance of theirs was held by the bank, that it fell due on a date named and that they were expected to provide for it. On the date Ewing and Company got the notice there was a considerable sum available in the bank to which it could have had recourse had they been promptly advised. Ewing and Company were held liable as being negligent in a duty they owed the bank. Mere silence for two weeks, provided the bank’s position has not been made worse in the interval, has been held not to bar the person whose signature was forged from disputing liability.

If a bill bearing an unauthorized or forged endorsement is paid in good faith in the ordinary course of business by the drawee or acceptor they may recover the amount paid from the person to whom it was paid or from any indorser who endorsed after the forged endorsement if they give notice within a reasonable time after learning of the fraud, and this notice may be given in the same manner as a notice of protest.

So much for the duties of the customer to his banker. The bank in turn has certain obligations toward those dealing with it. For instance, the holder of a bill on which there are endorsements is entitled to know on the day when it becomes due whether it is an honored or dishonored bill and if he receives the money and is allowed to retain it the whole of that day the party who paid it cannot get it back from a party acting in good faith, and this rule holds good although the holder may not have been prejudiced by the delay in giving advice of the forgery. It is assumed that he may be prejudiced.

Dealing with a Forged Endorsement

If a cheque be lost or stolen before mailing or delivery to the payee or his agent (which might be the mail, if the drawer were so directed to send it), then the loss falls on the drawer as between him and the payee, but if the payee or his agent gets it and it is afterwards lost, then as between him and the drawer the payee bears the loss. Where an endorsement has been forged the drawee will however have the right to recover the amount of the cheque from the paying bank or the bank which received the money, provided notice is given by the drawer to the drawee bank within one year after he learns of the forgery. A payee, to protect his right must institute proceedings within that same year. A bank which has been so stung must give notice of the fraud within a reasonable time after discovery. This is the language of section 50 of our Act and modifies in some respects the cases on the same point before given. It is contended by a writer on Banking that the section which allows a drawer a year within which to notify a banker must not be taken literally. One must not sleep on ones rights and should give notice within a reasonable time, but not in any case after a year.

Decidedly, the present system is unsatisfactory. The bank suffers many times through no fault of its own and in other cases persons receiving cheques which appear in order and who cannot be said to be guilty of carelessness are defrauded and left without recourse. The banks should so certify a cheque that raising should be practically impossible, and everyone should exercise care in issuing a cheque so that nothing could be added—W. F. Gurd, in *Industrial Progress and Commercial Record*.

(From Canadian Finance).

THE DISTINCTION IN PRACTICE BETWEEN CAPITAL AND REVENUE

The subject has been suggested to us by one of our correspondents, who, however, does not make it very clear whether he wishes us to consider the matter from the legal standpoint or from the audit routine point of view.

We are assuming that it is the latter that he desires, as we quite

appreciate that the young audit clerk sometimes has some misgivings as to whether certain expenditure should or should not be capitalized.

It is not possible to draw any strict dividing line, but the following general rules may be laid down to determine what expenditure may be charged to capital :—

- (1) Actual additions, such as new buildings, new plant, or new tools, which did not exist before and do not replace any similar asset.

Included in such expenditure will be architects' fees, legal charges in connection with the acquisition of land, stamp duties, and sundry outgoings, such as travelling expenses directly attributable to the acquisition of the asset.

- (2) Alterations to capital assets producing increased capacity.

It is not always easy for the auditor to determine what proportion of this expenditure represents capital outlay, and what proportion should be charged to revenue or replacements fund.

If one asset is merely replaced by another of increased capacity, as, for example, a 200 h.p. gas engine for one of 100 h.p., it is fairly straightforward ; but if a unit is replaced, new shops being built and new machinery installed, the problem is one that cannot be solved by the counting-house staff.

The best method is to charge all such expenditure to a separate account, and for the engineers to determine the increased capacity and proportion of expenditure attributable thereto.

- (3) Alterations to capital assets not producing any increased capacity but allowing a lower cost in output, as, for example, the removal of plant from one position to another permitting more economical working.

It cannot be said that such expenditure increases the capital value of the individual assets, but as the productive capacity is enhanced the capital value of the concern as a whole is improved. The outlay is certainly not chargeable against the Revenue Account of the year in which it was incurred, and the preferable method is to open a special account and spread the expenditure over a term of years.

- (4) Special replacements of plant either to increase capacity or to reduce cost of production, owing to the competition of rival undertakings with more modern installations.

It sometimes happens that plant becomes suddenly almost worthless owing to some invention which alters the rate or method of production.

The proprietors of the business know that unless they scrap their existing plant and put themselves in a position to compete with their rivals they will lose their trade. Although the expenditure is

to some extent a replacement, the amount by which the outlay exceeds the provision made for depreciation may properly be regarded as a capital loss, provided such deficiency is not due to the inadequacy of the depreciation charged in previous years.

If no reserve fund exists out of which the loss can be met, the amount should be spread over a term of years, but under no circumstances should the value of the scrapped plant be included in the Plant Capital Account, as otherwise the annual revenue charge would be misleading.

- (5) Ordinary replacements which are chargeable to Capital Account, provided the plant item replaced is or has been written off out of revenue.

Distinction must, however, be made between the cost of maintenance, consisting of small renewals and repairs, and replacements, which are renewals of the whole or some substantial part of the asset.

Maintenance or upkeep expenditure must always be charged to revenue; replacements are only chargeable to revenue to the extent the asset replaced has not been depreciated during its life.

In large concerns where a proper Plant Ledger is kept recording each item or unit of plant, the difficulties we have mentioned are to some extent modified, as a complete record of the original cost, additions and maintenance, together with depreciation written off and maintenance charged to revenue is available.

It is, however, no uncommon experience in comparatively large manufacturing concerns for the whole outlay on plant and machinery to be charged to one account, and depreciation written off at a fixed rate, quite irrespective of the varying lives and residual values of the separate items contained in the account.

In such cases where the auditor finds that the Plant Account is constantly increasing although the capacity of the concern is more or less stationary, he may well be suspicious that the depreciation written off is inadequate, or that revenue is not being charged with its proper proportion for maintenance.

Invoices for capital expenditure and repairs and replacements should always be examined, and the auditor should insist on such invoices being earmarked at the time they are "passed."

Sometimes in cases of difficulty the copy orders and tenders will shed some light on the matter.

In the case of loose tools, patterns, dies, &c., there is always a risk that expenditure incurred for one particular job may be wrongly capitalized, even although actually included in the price charged for the job.

Provided the turnover of the business remains fairly constant, we have found that the most satisfactory method after the concern

has become properly established is either to charge all expenditure for the year to Revenue, leaving Capital Account intact, or to charge the whole to capital, writing off, say, thirty-three and one-third per cent. per annum. It is practically impossible to distinguish in most cases between additions and replacements, and it is questionable if any more accurate results are obtained by attempting to do so.

(The Accountants' Journal.)

"ACCORDING TO THE BEST OF MY INFORMATION"*

BY R. G. WHITE, A. C. A.

I think that this paper calls for a few words by way of explanation—perhaps, I should say by way of apology. It is the outcome of an attempt to meet two difficulties: the first being that in the two papers read before this one the students will have heard as much sound wisdom and learning as they can comfortably digest for one evening, and the second being the almost impossible task of finding a subject that has not already been flogged to death. At the meeting held here on the 28th ultimo, it was said that there are in existence books on every class of accounts. I have been looking through some accountancy catalogues on the bare chance of finding some method of accumulating money which has not been treated from an accountancy point of view, and the only business which occurs to me as having escaped attention is that of a "burglar." As the title of this paper implies, I do not pretend to first hand acquaintance with the subject. I am merely going to make a few remarks, in the hope that they may serve to draw some information from those who have a practical knowledge of burglary and its accountancy.

It is to be regretted that burglars, as a body, are averse to the keeping of proper sets of accounts. Apart from the inconvenience caused to themselves by this omission, the matter has a wider aspect in view of the fact that they thereby escape their due share of taxation. It is difficult to meet such a position by means of legislation, but possibly something might be done by private influence. If every

*In the following witty paper, read at a meeting of the South Wales and Monmouthshire Chartered Accountants Students' Society on 26th November 1920, Mr White deals with a somewhat neglected branch of bookkeeping and gives some practical advice which, though probably not based on personal experience, may be of interest to the professional accountant.

accountant would take aside those of his intimate friends who happen to be burglars, and would point out to them that evasion of income-tax is an unfairness to one's neighbor—amounting in effect to dishonesty—possibly this view, acting on the burglar's sense of probity and upright dealing, would have a beneficial effect.

The term "burglar" is an elastic one, and is frequently applied to persons who have no honorable claim to it. In this paper I am considering it in its strict sense, and I do not propose to deal with any of the ramifications of the profession, such as the three-card man, the confidence merchant, or that more recent branch known as the profiteer.

In the case of a firm employing a number of hands, the most suitable form of accounts would appear to be on very similar lines to those of any other contractor. The nearest comparison that can be found would be the accounts of a salvage concern, as in both these businesses a large part of the work is undertaken on the "No cure no pay" basis.

A separate account will be opened in a Job Ledger for each work undertaken. This account will be debited with the wages of the men employed thereon, and with those expenses which can be directly allocated thereto; and will be credited with the proceeds (if any). Indirect expenditure—that is to say, expenditure which is general and not on account of any particular job—will be collected in an Establishment Charges Account, and apportioned over the various jobs. I do not propose to deal with methods of allocation, &c., as these have been treated on many occasions, but I think that at this point I may raise an unusual case. It is reasonable to suppose that a firm of burglars will ostensibly conduct a second business, which will serve as a blind for their main operations. By way of contrast, they might promote a corporation for the purposes of supplying edifying literature for the benefit of heathens abroad and at home; or a window-cleaning business would give valuable opportunities of inspecting houses and examining the window fasteners. The nature of this subsidiary business is immaterial, but as it would probably not be conducted on strict commercial lines, losses are to be expected. How are these losses—or profits, for that matter—to be treated in the accounts of the firm? I suggest that a separate Profit and Loss Account be kept for the subsidiary business, and that the loss thereon (or profit) be brought into the establishment charges of the burglary business. The secondary business is only run for the benefit of the various burglary jobs, which, under this method, will each stand a proportion of the balance thereon.

At balancing times there will probably be a certain amount of Work in Progress, representing time or materials spent on jobs not yet completed. For example, there may be the wages of the courtiers, that is, men who obtain information as to the premises by means of courting the maids. (I should be sorry to tempt any student away

from accountancy, but I may mention that there is excellent pay awaiting those who are thoroughly proficient in this work.) In addition, expenses may have been incurred in getting one of the burglar's staff into the building as a servant or clerk ; or special instruments, e.g. oxy-acetylene blow-pipes, may have been purchased for future use. These expenses, together with a proportion of the Establishment Charges, will have been gathered together, and will form a debit balance. In view of the possibility that the job may be a failure, aid that no credit will be subsequently received, should this amount be allowed to stand as an asset in the Balance Sheet ? I shall welcome any suggestions on the point. To me, the case appears to be similar to that of "Bad Debts," and the only course seems to be to make a reserve in respect of such as are "doubtful." In estimating this reserve, the accountant will, of course, take into consideration any material events which may have happened on the outstanding jobs between the date of the Balance Sheet and completion of same.

Another difficulty which arises when considering a Balance Sheet represents a novel and intricate problem in Contingent Liabilities.

It sometimes happens that when a job has been successfully completed and is apparently quite done with, circumstances arise out of that job which cause those who were concerned therein to undertake a quantity of totally unremunerative labor. This hard labor may extend over a period of years and is, of course, a dead loss to the business. The system of accounts under consideration requires that these losses should be charged against the job out of which they arose. But the accounts cannot be kept open indefinitely, and it is impossible to say whether any liability will arise, nor is there any statute of limitations fixing a date after which such liabilities cease. One imagines that such a matter will have been discussed by the Burglars' Control Board, but no method of treatment has been advocated. It shows rather a lack of initiative on the part of the insurance companies that they do not quote for a risk of this nature. An ingenious attempt to bridge the difficulty was made recently, but met with no success. In this case, the head of a firm, who was forced to undertake a course of five years of unremunerative labor arising out of a job in connection with a jeweller's premises, sent one of his workmen to take his place. He argued that the work was unskilled, and could be carried out as satisfactorily by his deputy as by himself, and that this course would leave him free to continue his usual occupation. Does Stevens deal with such a case in his chapter on "Principal and Agent" ? The ruling was that he had no power to delegate the duties. This decision—though probably sound law—is another example of red tape hampering business initiative. The only way to deal with the position seems, at first sight, to be to build up year by year a Reserve for Contingencies Account. Would you, as auditors, be satisfied if no actual reserve was made out of profits, but it was stated on the Balance

Sheet that there were contingent liabilities in respect of work done on certain premises ?

At the risk of wearying you, I should like to carry this problem in liabilities a stage further. Suppose that, as the result of an indiscretion committed while on duty, one of the workmen forfeits his life : for example, he might lose his temper with a policeman who interfered with him. If the workman pays the extreme penalty of the law, a train of liabilities arises. Compensation must be provided for his family, and probably the firm would show its sympathy by subscribing towards a pension for the widow, and a tombstone for the policeman. How are these expenses to be dealt with from an accountancy point of view ? As the workman has been hanged, it would seem appropriate to raise a Suspense Account in conjunction with a Sinking Fund.

I mentioned a little time ago the Burglars' Control Board, but I am quite ignorant on the point. Possibly, no such Board exists. I am willing to be corrected. But it seems reasonable to suppose that there is some such body which controls the members of the profession with a view to settling strikes, and to preventing those unscientific and slipshod burglaries which only cause annoyance to the general public.

Turning to the credit side of the accounts, it appears that the remuneration in the case of successful work may consist of money, or it may consist of valuables, e.g. plate or precious stones. The first case needs no comment, but in the second it may be asked how the valuables are to be converted into cash ? It will be realized that it would hardly be prudent to sell them on the open market. It might be truthful, but not discreet to advertise : "Valuable Family Plate, as recently used by the Duke of So-and-so." I believe that there are two methods in vogue : first, to sell them to a "fence"—that is, a man who buys such goods, but of course at low rates ; second, to change their form, e.g. to melt down plate or cut up stones and then sell them. This second method would appear to be the more profitable, as it does away with the heavy profits of the "fence," but it practically raises another department in the business. From the bookkeeping point of view this will be recorded by opening an account under some such title as "Conversion Account." The valuables brought in from a successful job will be valued, and the amount so arrived at will be credited to the Job Account, and debited to the Conversion Account. Conversion Account will stand the wages of the men engaged in the work of transformation, the selling expenses and a share of the general expenses, and be credited with the actual proceeds from the sale of the final product. Subject to the adjustment of stocks, the balance on Conversion Account will, at Balance Sheet times, be transferred to Profit and Loss Account, or it might be merged into Establishment Charges. Where the proceeds of any job are dealt with separately and rapidly, there is no reason why the final amount realized should not be credited at once to the Job Account instead of going into the intermediate stage of the Conversion Account.

On the question of taxation, I do not know whether anybody now present saw a report of the case of *Inland Revenue v. Sykes*. This case raised several interesting points, but the main issue can be summed up in the question: "Is a burglar liable for Excess Profits Duty?" For the Revenue it was contended that it was clearly not the intention of the legislators to exempt burglars. For it was argued, if you exempt a burglar, how, in common fairness and by analogy, can you refuse a similar concession to the laundryman, the tailor, butcher, baker, and candlestick maker, who, in these days of grace, carry on business with the same objects of, even if with different methods from, the burglar? Sykes based his case on the grounds that he was carrying on a profession, and that professions are excluded from Excess Profits Duty under the Finance (No. 2) Act 1915, Section 39 (c). In support of this claim, he pointed out that the secrecy, the close relations existing between practitioner and client, and the total absence of advertisement, which were essentials of his business, were worthy of the best traditions of professional practice. Further, it was stated that the personal nature of a profession does not make it a suitable subject for limited liability, and that you may search the files of Somerset House without finding a company which includes burglary in its "object" clause—despite the growing elasticity of this portion of the Memorandum of Association. Judgment was deferred, and in the interval—by a curious coincidence—the houses of the judge, and also those engaged on behalf of the Revenue, were burgled. After this there seemed to be a reluctance to press the case, and I am not aware of the decision (if any).

I do not propose to trouble you any further at the moment, as I want to leave time for the students to ask questions. I hope you will not consider this paper entirely a frivolous one, as it is well to remember that the principles of accountancy remain the same whether you deal with the accounts of a barrister or a road-scamenger; of a huge co-operative store or a fish-and-chip barrow.

I said at the commencement of this paper that burglars do not take kindly to bookkeeping. Perhaps this may be to some extent the fault of the accountant, who has undoubtedly neglected this branch. The remedy is for the accountant to get into sympathetic accord with the work of the burglar, to study his requirements, and to absorb the atmosphere and ideals of his work. If the accountant will do this he will certainly raise the standard of bookkeeping for burglars, and he will, in his turn, gain knowledge which may be of valuable assistance to him in future times of difficulties.

(From The Accountants' Journal).

REMEMBER

The Dominion Association Annual Meeting at Halifax, August 8th, 9th and 10th next, and plan to be there.

THE
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CANADIAN BANKING

The remarkable thing about the Canadian banking system, after a year of price liquidation unparalleled in history, is not that few bank shareholders should have been subjected to a loss of some part of the market value of their stock, but that not a single dollar of the money of Canadian depositors should have been lost or should, so far as can be told, have ever been in the slightest danger, states the Royal Securities in the current number of investment items. The preposterous outcry about the losses of these shareholders—an outcry in which, we are glad to say, the shareholders themselves have not participated—has been based upon the assumption that it is the duty of the Bank Act and the officials of the government to protect the owners of a bank against their own carelessness and the neglect or unwisdom of their own elected representatives or appointed servants. There could be no greater error. Such a conception takes away from the owner the right and responsibility of managing his own property. Banking, in Canada, is a business which, when ably carried on, yields large profits, and when otherwise carried on subjects the owners of the bank to the risk of loss. It is the business of the Bank Act and of the department of finance to see that the risk of loss does not extend to the depositors, who are in no position to control the management for themselves; and that function seems to have been performed very successfully throughout a very difficult year.

There will doubtless be a need for some minor changes in the bank act when that measure comes up, in accordance with the wise practice instituted by the founders of our banking system, for its decennial re-enactment. But they will not be charges tending to diminish the authority of shareholders over their own bank and their responsibility for its management. With the present minister of finance in charge of the legislation, it is fairly safe to assume that no amendments will be made which have not the support of those Canadians who have devoted their lifetime to the business of banking and have assisted in building up our present group of strong institutions and establishing them in the public confidence.

PROPOSED "BLUE SKY" LAW

Blue Sky legislation as laid before the Ontario provincial house by Attorney General Raney's bill is not regarded in local financial circles as being very drastic. In comparison with the Blue Sky laws of some of the states which possess such legislation, its restrictive features appear decidedly mild. Indeed the whole bill is viewed rather as a supervisory than a prohibitory measure.

In short, it supplements the provisions of the Ontario Companies Act by providing a special officer of the crown, whose duties it will be to see that frauds are not committed in connection with the sale or advertisement of new securities.

Unlike most Blue Sky legislation, it does not attempt to discriminate between what are good or sound securities, and those which are speculative. It does not even impose serious obstacles to the sale of highly speculative securities, provided in connection with the same, no specific act of fraud is perpetrated. In this respect it will probably meet with the approval of mining men generally. The Ontario Mining Association, and the Standard Stock and Mining Exchange have always disapproved of the idea of a government officer attempting to distinguish between a mining venture which has a prospect of success, and one which has not, since in the early stages of development many mines which have ultimately proved very profitable, have looked much like wild-cats.

It might be asked what good the bill accomplishes, since it goes little further than to provide for the detection, frustration, and punishment of fraud. The answer would appear to be that there is room for a measure which does this very thing. Fraud is already a criminal offense. But there is much of fraud or what practically amounts to fraud, practised in connection with the sale of a good many securities, which is never made amenable to the law simply because no person takes the trouble to bring the guilty parties before court.

A private individual may have reasonable knowledge on which to believe that a certain offering of stock is highly objectionable, or that false statements are being published in connection with the advertisement or sale of it. But a private individual rarely cares to hail the unscrupulous promoter before a criminal court on a charge of fraud. The same person might, however, be quite ready to lay such information as he possessed before an officer of the crown who would assume the responsibility of looking into the allegations made.

INCOME TAX DODGERS

The extent of the evasion of the income tax law in the United States disclosed by recent figures, raises the question as to the extent to which tax dodging is indulged in Canada. Officials here do not claim

that everybody eligible for taxation pays taxes, because it is the history of the operation of income tax legislation everywhere that there is evasion, in Great Britain, for example, the default being placed at 75 million pounds in one year. The safeguards employed, however, are considered to be sufficiently efficient to prevent the law being ignored to an extent relative to what is reported in the United States where about half the eligibles are alleged to escape.

Last year over half a million Canadians filed income tax returns. This number being double that of the fiscal year preceding. As many more returns were filed for the information of the department. In income taxes last year \$78,000,000 was collected along with \$22,000,-000 in business taxes.

In respect of income increased collections were \$38,000,000, but as regards the business tax it was a decline of \$18,000,000, attributable to the fact that the temporary law on the subject is gradually becoming inoperative.

LECTURE ON BANKRUPTCY

In view of the recent conviction of Nathan and Meyer Brenner of Toronto for falsification and mutilation of books belonging to N. Brenner & Co., Ltd., as well as for theft of \$700,000 belonging to the company, the lecture given by Lewis Duncan, of Messrs. Rowell, Reid, Wood, Wright & McMillan, barristers, on "The Operation and Effect of the Bankruptcy Act," was most timely. Mr Duncan spoke in the Mining Building at the University to members of all bank staffs, under the auspices of the Toronto Bankers' Educational Association.

Among the crimes coming under the Bankruptcy Act was the falsification of books for which the penalty was two years. Others were : Material omission in a statement of affairs of a person or firm going into bankruptcy ; destruction of a company's books, seven years, and gift of property with intent to defraud, for which the penalty was one year.

Some criticism of the Act lay in the fact that creditors were forced to bear the cost of protecting themselves, and a bankrupt had the right to choose his own trustee in bankruptcy. With respect to composition proceedings, it had been held to be quite unfair, as instanced in Montreal recently, that 51 per cent. of the creditors holding two-thirds of the debts could determine the percentage to be paid. This gave the debtor a great chance of improperly getting rid of his liabilities. All creditors should be on the same basis, Mr. Duncan held.

SHAREHOLDERS' RIGHTS

According to Mr. Justice Orde, in a finding on an application with regard to the liquidation of the Patricia Appliance Shops, Ltd.,

shareholders are entitled to be notified of the first creditors' meeting of a bankrupt company, but failure to do so will not invalidate the meeting, unless the shareholders or company have been prejudiced thereby. Shareholders, he points out, are not entitled to outvote other creditors, nor are they entitled to interfere in the administration of the estate.

SOME ACCOUNTING DEFINITIONS

The following definitions of accounting were given by students in a recent examination and may be found helpful to our readers.

The questions asked were :—

What do you understand by the following terms :—

Self Balancing Ledgers.

Working Capital.

Watered Stock.

Balance Sheet.

How would you proceed to locate errors in a Trial Balance ?

The answers were as follows :—

A Self Balancing Ledger is one you do not need to take a trial balance off. It balances itself.

Working capital is the amount of paid up capital and funds standing to the credit of Profit and Loss Account and Reserve Accounts which are used in the carrying on or working of a business.

Working Capital is the Capital which is used in the business, such as Surplus, Treasury Stock, Ret A-c etc. on which there is no direct liability to the shareholders.

Working Capital is the amount which a company is run on.

Working Capital is that part of the paid up capital which has been paid for in money as opposed to Watered Stock.

Working Capital is that amount of capital stock which is not tied up, i. e. it produces revenue for the company.

When a Stock Company opens up it is capitalized for so much money, say \$50,000. Stock is issued for this money. All the stock is sold. About \$25,000. is now issued and sold but does not go into the books. This money is kept by a few of the big men, thus watering your stock.

Watered Stock is merchandise that has been partially destroyed by water or other means while in storage.

Watered Stock is stock that has been given as a stock dividend.

Watered Stock means stock sold above value without any increase in the holdings of the company to warrant the increase in selling price

Watered Stock is stock which has no par value.

When stock becomes to be worth more than it was originally worth new shares are issued to the shareholders for which they do not have to pay cash, so consequently the value of the stock falls.

Watered Stock—Stock really in excess of what has actually been paid for or subscribed, or stock held by a person and not really earned.

Watered Stock is stock of a company which has become bankrupt or insolvent, paying its shareholders nothing. Therefore the stock of the company has no value.

Watered Stock is forbidden under all the Canadian Companies Acts.

Watered Stock is the colloquial name applied to that part of the capital stock of a company that does not represent real assets.

Watered Stock is new stock created for the purpose of lowering the rate of dividends.

If a corporation has a large surplus and they desire to avoid taxes on such, they sometimes write off shares bought on the market but do not make allowance for it on their financial statements.

Watered Stock may be defined as stock doctored up by every means possible in order that it may sell well and meet the eye of the buying public. Such stock as oil stock, mining stock, etc. which is extensively advertised and praised to the hilt is watered stock.

A company such as a gas company which is dealing directly with the public may make an enormous amount of profit, and if this was known to the public they might demand lower rates, so to overcome this additional shares are put in a shareholder's name and the capital upon which dividends are paid is greatly increased, hence the rate of dividends is decreased and appears normal. This is known as Watered Stock.

A Balance Sheet is a statement of Assets and Liabilities. It must be in balance and if it is not, we know an error has been made somewhere in the manufacturing, trading or profit and loss accounts.

Add the Trial Balance up and down on both sides.

When it is found that the Trial Balance is "off" check all the editions very carefully.

Look for difference in the two sides of your Balance Sheet.

The only infallible means of locating errors in the Trial Balance is to analyze the General Ledger.

Watch for figures being turned around and unplain figures.

Taking the ledger, check off the balances from it to the Trial Balance using a pencil.

Take half the difference (if possible) and look for that amount on wrong side.

If the totals of the Trial Balance do not agree, add the lists again from bottom to top and from top to bottom. If the additions vary in their results, go over them again if necessary until they come the same.

Now go over & see if there are any amounts not checked off and if there are there will probably be your difference

If this does not find your

go over it all again. Get the idea into your head that there is no such

a word as can't & the difference must be found. Watch for transpositions such as 198 and 189 because they are very easily overlooked. If this does not find your difference go over it all again.

SUBSCRIPTIONS HOLD

The dangers of subscribing for stock in unknown companies was illustrated by cases dealt with by the Master in Ordinary in Toronto, in connection with the Oakoal Co. of Canada, Ltd.

One of these cases was that of W. Davenport who subscribed for stock on the representation that Oakoal was being manufactured. He made a visit to the plant and found that nothing was being done there, whereupon he went to the office and notified the officials of the company that he would not take the stock and would have nothing to do with it. Unfortunately he did not bring action against the company for the cancellation of his stock before the company went into liquidation, and the Master in Ordinary was forced to hold him liable for the amount of his subscription.

Would Take More

In another case A. Jewell had subscribed for \$1,000 worth of stock, and when an agent called upon him, signed a document which indicated his willingness to take \$1,400 more. Realizing immediately that he would not be able to pay for the stock, he went to the offices, and it was arranged, he said, by Manager Long that his second subscription should be cancelled, and the amount paid on that should be credited on his first subscription.

Hocus-Pocus Arrangement

"Long had no power to make any such arrangement," said the Master in Ordinary. "He could not cancel stock. If he made any such hocus-pocus arrangements it could have no effect."

Jewell was held liable to complete his payments on the \$2,400 worth of worthless stock.

J. W. Johnston and Jessie L. Johnston withdrew their defence for a portion of their subscription, but opposed the liquidator's right to collect from Roy Johnston on the ground that he was an infant.

PERSONAL

Messrs. Stiff Bros. & Sime announce the removal of their offices from the Bank of Hamilton Building, Toronto, to the Union Bank Building, corner of King and Bay Streets.

Messrs. Barrow, Wade, Guthrie & Co., Accountants, New York, announce the removal of their offices to the Equitable Building, 120 Broadway.

W. J. Valteau,
Canadian Chartered Accountant,
Toronto.

234 Roy Building,
Halifax, April 27, 1922.

Dear Mr. Valteau :

I am in receipt of your letter in re the 1922 Convention. For the social programme it has been arranged to have on the first day a luncheon to all delegates, at which the members of the Nova Scotia Institute will be the hosts, a motor drive for ladies in the afternoon and the annual dinner of the Association in the evening.

On the second day the president's luncheon to the Dominion Council will be at one P.M. followed by a harbor excursion and tea at a club on the North West Arm.

The programme for the third day has been left open for the present and an item I read in your last issue has suggested the possibility of a golf match between Montreal and Toronto for the morning of that day with luncheon at the golf club. If some of the members whose names are mentioned in the article in question would kindly write me, expressing their views on the subject, I shall be guided by the expressions of opinion.

I am glad to be able to announce that we are to be favored with an address by Mr. James Hutchison of Montreal, his subject being "Bank Audits," which should be of great interest to all members of the profession.

Please impress on your readers the dates for the convention being August 8th, 9th and 10th, and the fact that all who possibly can manage it should make the trip to Halifax for this meeting.

Yours sincerely,

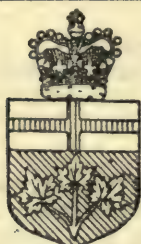
H. D. Creighton,
President.

DON'T LET YOUR WIFE SEE THIS

An employee of the Marathon Paper Mills Company, tired of hearing men boast of their importance, dug up the fact that, according to scientific investigation, the ingredients of a man, plus water are as follows :—

Fat enough for seven bars of soap.
Iron enough for a medium-sized nail.
Sugar enough to fill a shaker.
Lime enough to whitewash a chicken coop.
Phosphorus enough to make 2,200 match tips.
Magnesium enough for a dose of magnesia.
Potassium enough to explode a toy cannon.
Sulphur enough to rid a dog of fleas.

This whole collection is worth ninety-eight cents, and that in a day when things are three times as high as they used to be.



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF ONTARIO

(Incorporated 1883.)

Rutherford Williamson, President.

T. Watson Sime, Secretary.

W. J. Valleau, Registrar.

THE Annual General Meeting of the Ontario Institute will be held in the course of a month or so. A number of the members are asking that an outing, similar to last year be arranged and the proposal is under consideration. As soon as the programme is decided upon members will be advised by circular and it is hoped that they will arrange their engagements so as not to interfere with their attendance.

Members will be interested to learn that the Institute Instruction Courses established this year, are progressing favorably and that the enrollment has been greatly in excess of that expected.

The Chartered Accountants Luncheon Club has been a great success and has held regular monthly meetings during the winter.

The Chartered Accountants Students Association have also held several social dinners and entertainments, at which subjects of interest were discussed.

Messrs. Stiff Bros. & Sime have moved from the Bank of Hamilton Building to the Union Bank Building, corner King and Bay Streets, Toronto.



THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF ALBERTA.

(Incorporated 1910)

Frank M. Harvey, President.

Cecil E. Race, Secretary.

TWO of the leading firms of Chartered Accountants in the Province of Alberta, Messrs. Harvey, Richardson, Cole & Robertson, and Messrs. George A. Touche & Co., have been employed for some-time on a checking up of the Government accounts. This was done at the request of the new Farmer Government on the occasion of their

taking over the administration from the Liberal Government which preceded them. An interim report has been issued suggesting a number of changes in the accounting system to put it upon a revenue basis rather than upon a cash basis as heretofore. Amongst the other recommendations is that there be a centralized system of accounting for the province, with a comptroller in charge. Accountants of the province are naturally much interested in the matter.



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF
BRITISH COLUMBIA

(Incorporated 1905.)

G. F. Gyles, President.

J. B. Woodthorpe, Secretary-Treasurer.

THE Seventeenth Annual General Meeting of the Institute of Chartered Accountants of British Columbia was held at the Vancouver Hotel on March 15th, 1922. About forty members of the Institute were present at the Luncheon from Vancouver, Victoria and other parts of the Province and a most interesting Meeting resulted. After the special routine business was dealt with a general discussion took place and a number of interesting addresses were presented by members present relating to the profession and the relationship between the Institute and the Financial and Commercial Public.

During the course of the Meeting Mr. G. F. Gyles, the retiring President, made an interesting report on the activities of the Institute during the past year. He outlined the provisions of the Chartered Accountants Act, which was passed by the last Provincial Legislative Assembly, and described some of the difficulties which were encountered in the course of promoting the measure. He explained that the new Act gave the B. C. Institute the same privileges and responsibilities as existed in most of the other Provinces and for the reason that it was a further step towards Uniformity it was a most important event for the profession in Canada as a whole. The Acting Secretary in his Report stated that there had been a net increase in the Membership of the Institute of 12 members since the last Annual Meeting and that there were 128 members on the Register at March 15th, 1922. Of these 86 were resident in British Columbia, 7 in other parts of Canada and 35 outside Canada. During the 9½ months since the last Annual Meeting the unprecedented number of 22 Council Meetings had been held. New Legislation and By-Laws were the chief reasons for the

extra activity. During the year the number of Members on the Council was increased from 9 to 12 and under the new Act all members retire annually.

The Articled Clerks on the register at March 15th, 1922 number 36, and 8 Articles of Clerkship had been registered during the year. Examinations which were held in December 1921 brought forward a record number of Candidates. There were 11 Candidates for the Final of whom 7 passed and 12 for the Intermediate of whom 7 passed. The successful Candidates in order of merit were as follows: Final, D. W. W. Whitelaw, F. C. Holden, R. Berry, S. B. Barron, F. Moreton, C. R. Adams, A. E. Bourne. Intermediate, E. H. Cotter, A. A. Shaw, H. Anscomb, L. R. Sinclair, C. Barrett-Lennard, J. S. Flanagan, R. G. Rutherford. Prizes were presented to D. W. W. Whitelaw and E. H. Cotter for passing first in the Final and Intermediate Examinations, respectively.

The ballot resulted in the following members being declared elected to the Council for the ensuing year:—H. C. Chiene, G. E. Winter, A. L. C. Chalk, J. B. Woodthorpe, R. Bayly, A. H. Edwards, J. H. Young, A. H. Rathie, J. D. Forsyth, W. R. Carmichael, E. W. Ismay and F. Field.



THE INSTITUTE OF CHARTERED
ACCOUNTANTS OF SASKATCHEWAN

(Incorporated 1908.)

F. J. Pilkington, President.

Thomas Lax, Secretary.

IT has been decided to hold the annual meeting of the Institute at Saskatoon on Saturday, May 27th, 1922. Members are requested to note the date and make every effort to attend. In accordance with the custom which prevailed before the war, the annual banquet will be held in the evening of the day of the meeting. An interesting programme is being arranged and a good time is promised by our Saskatoon friends.

The delegates to the Dominion Convention at Vancouver have prepared an exhaustive report on the proceedings at the convention, this will be printed and copies distributed with the notices of the annual meeting.

An important addition has been made to the by-law dealing with unprofessional conduct. It is now provided that "To advertise in any other manner than by a professional card of not more than one column wide and two inches in depth" shall be construed to be unprofessional conduct.

The annual examinations were held during the week commencing April 24th. A satisfactory number of students presented themselves for examination this year.

Members of the Institute will be pleased to hear of the appointment of Mr. C. E. Walker as Lecturer at Queen's University.



THE INSTITUTE OF
CHARTERED ACCOUNTANTS OF
NOVA SCOTIA

(Incorporated 1900.)

T. Harold Johnson, President.

H. D. Creighton, Secretary.

THE annual meeting of the Nova Scotia Institute was held in Halifax on Tuesday evening, April 25th, at which the following officers were elected.

Officers.

President—T. Harold Johnson

Vice-President—H. E. Crowell

Secretary-Treasurer—H. D. Creighton

Auditor—W. A. Stech

Council.

Kaulbach, E.

Blackett, J. R.

Holder, G. H.

Torey, C. L.

Dickson, G. Wallace

Leverman, W. E.

Piers, T. L. E.

McLeod, G. A.

Martin, R. L.

Studd, W. H.

Coldwell, B. A.

Delegates to Dominion Association.

H. D. Creighton and E. Kaulbach

The members are all looking forward to meeting the members of the other Institutes at the 1922 convention in Halifax on August 8th, 9th and 10th.

THE VALUE OF THE EXPERT

For some unaccountable reason we for many years submitted to the practice of attempting to carry on the administration of public affairs without the aid of expert officials, particularly in our federal and provincial administrations. It was considered essential that any applicant for an important position with the government should first of all demonstrate in a very practical way his allegiance to the party in power. If, in addition to this, he had ability to handle the position he applied for, the applicant would probably be more welcome, but it was sometimes dangerous to know too much, because politics and business methods often mixed just about as readily as oil mixes with water.

But those days and old-time methods are fading away, although we still have instances of government employees whose chief anxiety is to hold onto their jobs, and who refuse to instal up-to-date business methods in their departments, either because they do not understand them, or because they have not sufficient back-bone to demand from those in authority over them the facilities which modern business requires.

We have in the West two outstanding examples of government efficiency, namely, the accounting systems in use in Manitoba and British Columbia by the provincial authorities. These two provinces are undoubtedly head-and-shoulders above the other Canadian provinces in this connection. There is a reason. The provincial treasurers of these provinces realize that governmental accounting is work which needs expert supervision; it needs men specially trained for the work, and above all it demands a type of man who is free from political bias. Manitoba secured a chartered accountant to instal its accounting system, and British Columbia has a chartered accountant in charge of its accounts.

If all our governmental activities were carried on on this basis, we should be nearer to the day when taxes will be decreased, and our public finances administered efficiently and economically.

—From Canadian Finance.

Some men have within them that which always spurs them on while some need artificial initiative, outside encouragement.

Some men exact themselves under stern discipline ; some respond only to a gentle rein.

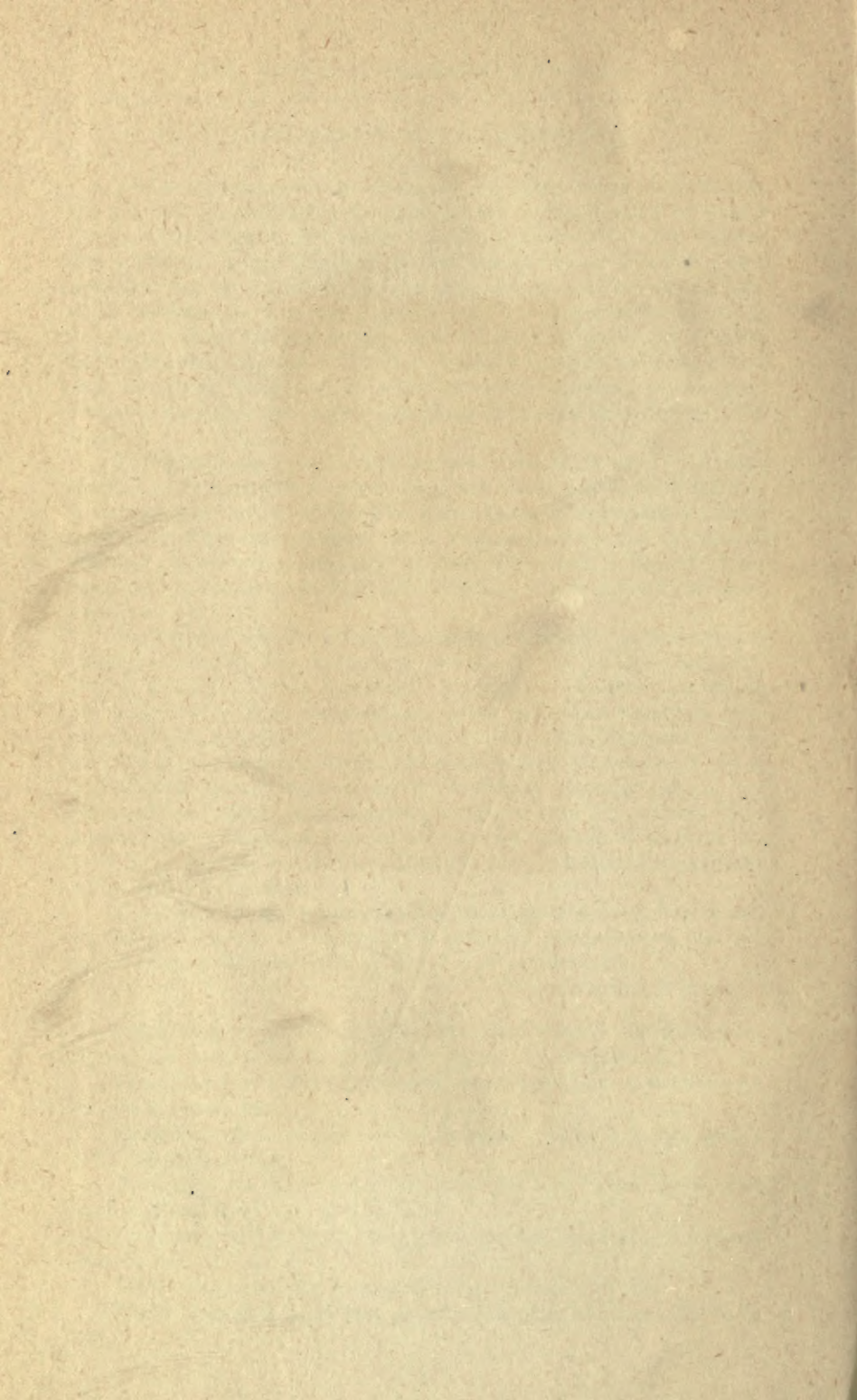
Some men need driving ; some coaxing. Some need the spur ; some the sugar lump.

Some men do their best work piled shoulder high ; some must have it given them a piece at a time.

Some men thrive on discouragement ; some cannot work without cheerfulness.

Study men—the men over you, under you around you.

Study them and learn how to get from each the most that is in him.



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accountant

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